What People Want.

Del Monte Foods Company
2000 Annual Report


Fruit Pleasures


Del Monte
Fresh Cut
Cut Green Beans
No Salt Added


Del Monte
Fresh Cut
Diced Tomatoes


Sunfresh


Del Monte
Fresh Cut
Sweet Peas


Del Monte
Mixed Vegetables
No Salt Added


Del Monte
Fresh Cut
Sliced Carrots


Contadina
Pizza
Sauce


Contadina
Italian Paste


Del Monte
Orchard Select


Del Monte
Zesty
Chunky Tomatoes
Chili Style


Del Monte
Fresh Cut
Sweet Corn
Cream Style


Del Monte
Stewed Tomatoes
Original Recipe


Del Monte
Fresh Cut
Whole Leaf
Spinach


Del Monte
Lite
Fruit
Cocktail


Orange


Del Monte
Fresh Cut
Sliced Beets

Del Monte Understands
What People Want.

Satisfying food. That nourishes family life. Without taking more time to make than to share. Simplified prep, but with home-cooking goodness. Flexible choices for freestyle schedules. Take-along convenience, with sit-down quality. Anytime, anyplace meals. Always easy and good tasting. This is what Del Monte provides. Imaginative, irresistible, convenient products that inspire great meals – at home and on the go.

Bob's hour-long morning commute makes fixing himself an unhurried breakfast pretty much impossible. But he can't just skip breakfast altogether. What Bob needs is something quick but healthy to get his day off to a great start.

Sometimes, Bob gets a fast start on his morning by whipping up a smoothie from just a few ingredients. Other times, he eats breakfast right out of the jar.

Now that's convenience!

INSPIRING GREAT MEALS
AT HOME AND ON THE GO

BANANA PEACH SMOOTHIE

Prep: 3 minutes
3-4 servings

1 jar (26 oz.) DEL MONTE ORCHARD SELECT Sliced Cling Peaches, chilled
1 medium banana, peeled and sliced
1 cup low-fat milk
1 cup ice
1 can (6 oz.) DEL MONTE Pineapple Juice, chilled

1. Combine one-half jar peaches and syrup with all other ingredients in blender.
2. Cover and run on high until smooth.

Get Creative: For easy variety, try other ORCHARD SELECT products, such as Apricot Halves or Sliced Bartlett Pears, or try any other DEL MONTE fruit products. Or, substitute 1 cup low-fat vanilla yogurt in place of milk.

Robin's picky about food. Naturally, mom wants to feed Robin something jiffy-quick and nutritious. But it's still got to make her finicky eater go "Yummm!"

Robin's mom scores big time with four great flavors that keep a hard-to-please child coming back for more. Mom gets a gold star.

INSPIRING GREAT MEALS
AT HOME AND ON THE GO

FRUIT TO-GO

1 DEL MONTE Fruit To-Go cup
1 spoon

Open and enjoy.

Get Creative: Simply add to any lunch.

Winona has already put in a full day. Now she's facing that all-too-familiar after-work time crunch. With less than a half hour until it's time to sit for dinner, Winona needs something appetizing, healthy and easy to prepare.

In just 15 minutes, Winona puts together a healthy, effortless meal of comfort food that everyone loves. And getting it on the table is a real breeze.

INSPIRING GREAT MEALS
AT HOME AND ON THE GO

PASTA AND SAUSAGE DELIGHT

Prep: 5 minutes
Cook: 10 minutes
4 servings

- 6 oz. (2 cups) dried rotini pasta
- 6 oz. turkey sausage, halved lengthwise and sliced
- 1 can (14-1/2 oz.) DEL MONTE Cut Green Beans, drained
- 1 can (8-3/4 oz.) DEL MONTE Whole Kernel Golden Sweet Corn, drained
- 1 can (14-1/2 oz.) DEL MONTE Diced Tomatoes with Garlic & Onion

1. Cook pasta according to package directions; drain.
2. Meanwhile, cook and stir sausage in large skillet over medium-high heat 2 to 3 minutes or until browned; drain.
3. Stir in beans, corn and undrained tomatoes. Bring to boil; reduce heat. Simmer, uncovered, 2 to 3 minutes. Stir in cooked pasta. Serve sprinkled with Parmesan cheese, if desired.

Get Creative: For a zestier pasta, try new DEL MONTE Zesty Diced Tomatoes with Mild Green Chilies or Zesty Diced Tomatoes with Jalapeno Peppers.

Del Monte Foods Company (NYSE: DLM) is the largest producer and distributor of premium quality, branded processed fruit, vegetable, and tomato products in the United States. Our principal brands include *Del Monte*, *Contadina* and *Sunfresh*. We're the number one brand in each of our major businesses, with a strong presence in all channels of trade. In the U.S., the Company employs 2,600 full time employees and 12,000 additional seasonal workers in 14 production facilities in California, the Midwest, Washington, Texas, and in seven strategically located distribution centers. Visit us on our Web site at: www.delmonte.com

FINANCIAL HIGHLIGHTS

(In millions, except share data)	Year Ended June 30, 1998	Year Ended June 30, 1999	Year Ended June 30, 2000	'99 vs.'00 % Change
Net sales	$ 1,313.3	$ 1,504.5	$ 1,462.1	(2.8%)
Operating income	82.2	112.8	146.5	29.9%
Income before extraordinary item[3]	5.5	32.7	133.0	306.7%
Earnings per share[1][3]	0.01	0.68	2.50	267.6%
Adjusted EBITDA[2]	134.6	167.8	187.4	11.7%

(1) Fully diluted earnings per share before extraordinary item.

(2) Adjusted EBITDA represents EBITDA (income before interest, provision for income taxes and depreciation/amortization) before special charges and other one-time and non-cash charges.

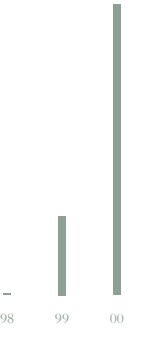
(3) Fiscal 2000 includes a credit to income tax expense of $67.7, or $1.27 per common share.

98 $1,313.3
99 $1,504.5
00 $1,462.1

NET SALES
(in millions)

98 $134.6
99 $167.8
00 $187.4

EBITDA
(in millions)



98 $0.01
99 $0.68
00 $2.50

EARNINGS PER SHARE

To Our Fellow Shareholders:

Fiscal 2000 was another dynamic year for Del Monte Foods. We achieved excellent operating margins and delivered strong year-to-year earnings per share growth. In each of our major businesses, we continued to grow our market shares and maintained our number one position. However, despite these gains we are not satisfied with our fiscal 2000 revenue results, which fell below our growth objectives. As we look to the future, we remain confident in the fundamental strategies we have initiated, and which we believe are building long-term value for our company.

THE NUMBERS

For the year ended June 30, 2000, we reported net sales of $1,462.1 million, a three percent decrease from the previous year's net sales of $1,504.5 million. Diluted earnings per share for fiscal 2000 were $2.42, up from $0.23 in fiscal 1999. Net income for the year was $128.7 million, up from $13.5 million in the last fiscal year. Net income for fiscal 2000 included a tax credit of $67.7 million related to the release of the majority of our valuation allowance during the fourth quarter of the year.

DRIVING A BILLION DOLLAR BRAND

In our second year as a publicly held company, we continued to put our tremendous assets to work to strengthen our marketplace position. As one of the few billion-dollar brands in grocery, Del Monte has size, momentum, and over a century of history with consumers, all of which lets us leverage our base business and develop new revenue opportunities. Going forward, we will continue to build our traditional fruit, vegetable and tomato businesses by focusing on quality products that are easy to use for meals at home and on the go. Importantly, however, we will also increasingly take advantage of new packaging forms – glass and plastic. With this packaging, we will benefit from two strong, emerging platforms for growth: healthy snacks, such as our *Del Monte Fruit To-Go* single-serve cups, and packaged produce, such as *Orchard Select*. These will be key sources of future expansion.

By focusing our products and our brands on key consumer trends – for example, the impact of consumers' fast-paced and busy lives on eating habits – we are charting a course that we believe will lead to superior performance well into the future. As this year's annual report illustrates in the preceding section, our products excel at providing what people want: delicious, healthy food solutions that are fast and easy to prepare, at home and on the go.

REVENUES

In spite of our overall earnings per share growth for the year, top-line sales decreased. During this fiscal year, we continued the downsizing of Del Monte's foodservice business. This is consistent with our strategy of focusing Del Monte on the branded, high-margin categories of our business. This downsizing, which lowered our fiscal year 2000 revenues, is now complete. In addition, our non-foodservice revenues only grew by one percent due to lower shipments as retailers reduced their inventory levels.

STAYING ON STRATEGY

Last year, I reported on the five-point growth strategy that we have pursued since its launch in fiscal 1998. This strategy continues to represent the building blocks of our success. The following point-by-point update demonstrates how our growth strategy is effectively grounded in straightforward, realistic business assumptions, which we believe will continue to provide consistent progress.

1. TO INCREASE SALES OF TARGETED, HIGH-MARGIN PRODUCT LINES. Fiscal 2000 revenues from these product lines – such as diced tomatoes and specialty fruits and vegetables – grew by over 7.5 percent compared to last year, and these product lines now represent approximately 27 percent of revenues.

2. TO EXPAND BY INTRODUCING NEW PRODUCTS AND NEW PACKAGING. Incremental sales of new products this year grew the top-line by over two percent, primarily from *Del Monte Fruit To-Go*, Mandarin Orange Cup, Zesty Diced Tomatoes, and from continued expansion in the produce section of our *Orchard Select* glass jar line, which now includes apricots. Products sold in glass or plastic packaging represented 75 percent of total new product growth during the past year. New packaging also contributed to revenue growth across all product lines. In addition to plastic and glass, both of which we will continue to expand, we have introduced pull-top lids in vegetables. Also, our colorful, multi-pack jacket packaging continues to be very successful in the club mass merchandisers channel.

3. TO INCREASE SALES IN THE CLUB MASS MERCHANDISERS CHANNEL. We grew sales in this channel by 19 percent in fiscal 2000 – mostly from the fast-growing supercenters and club stores.

4. TO INVEST IN OUR PLANTS AND REDUCE COSTS. We continue to make progress with our five-year, $100 million capital investment program, scheduled to generate $170 million in cost savings. We have completed our tomato facility expansion in Hanford, California, and began the harvest season at our newly renovated, state-of-the-art fruit processing facility in Modesto, California. In early December 1999, we invested in additional production capacity with the purchase of a strategically located processing facility in Cambria, Wisconsin, which can handle all of our core vegetable lines. Overall, the consolidation program has met or exceeded all of our operating objectives.

5. TO EXPLORE STRATEGIC ACQUISITIONS. We continue to consider acquisitions if they make strategic sense for our business. A case in point is our recent decision to enhance our growing presence in the produce section by buying the worldwide rights to the *Sunfresh* brand from the UniMark Group, Inc. Del Monte will market and distribute the *Sunfresh* line of premium tropical and citrus fruits in jars. *Sunfresh* products are sold in the produce section, one of the fastest growing segments in retail food. This acquisition also strengthens our *Orchard Select* jarred fruit line, which is consistent with our strategy of focusing on premium, high-margin brands and further extending our presence beyond the canned food aisle.

LOOKING FORWARD

As we enter fiscal 2001, we are confident that the strong progress we achieved in our five-point growth strategy will continue to create top-line growth. Our base business, supported by the equity of the billion-dollar *Del Monte* brand and driven by improved margins and focused execution, will continue to leverage the "Hey, I Can Do That!" popular grocery campaign, which promotes easy-to-prepare meals. Going forward, we will continue to expand through new packaging and with new Del Monte products focused on more fast-growing market segments, such as healthy snacking and packaged produce. Finally, we will continue to appeal to consumers by showcasing how the good-for-you convenience of our fruit, vegetable, and tomato products fits all lifestyles, is appropriate for any eating occasion, and enhances a wide variety of meals.

I thank all our employees throughout Del Monte for their extra efforts, commitment, and passion for this great company; as well as our many trade customers, consumers, their families, and our shareholders for their continued support.

Richard G. Wolford
Chairman of the Board,
President and Chief Executive Officer

The following table sets forth historical consolidated financial information of Del Monte. The statement of operations data for the fiscal year ended June 30, 1996 and the balance sheet data as of June 30, 1996 have been derived from consolidated financial statements of Del Monte audited by Ernst & Young LLP, independent auditors. The statement of operations data for each of the fiscal years in the four-year period ended June 30, 2000 and the balance sheet data as of June 30, 2000, 1999, 1998 and 1997 have been derived from consolidated financial statements of Del Monte audited by KPMG LLP, independent auditors. The table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the consolidated financial statements of Del Monte and related notes and other financial information included elsewhere in this Annual Report on Form 10-K.

	Fiscal Year Ended June 30,				
(In millions, except share data)	2000	1999	1998	1997	1996
STATEMENT OF OPERATIONS DATA:					
Net sales	$ 1,462.1	$ 1,504.5	$ 1,313.3	$ 1,217.4	$ 1,305.3
Cost of products sold	920.5	998.3	898.2	819.3	984.1
Selling, administrative and general expense[a]	384.2	375.3	316.4	326.9	239.0
Special charges related to plant consolidation	10.9	17.2	9.6	—	—
Acquisition expense	—	0.9	6.9	—	—
Operating income	146.5	112.8	82.2	71.2	82.2
Interest expense	67.1	77.6	77.5	52.0	67.2
Loss (gain) on sale of divested assets[b]	—	—	—	5.0	(123.3)
Other (income) expense[a]	—	2.0	(1.3)	30.1	2.7
Income (loss) before income taxes, minority interest, extraordinary item and cumulative effect of accounting change	79.4	33.2	6.0	(15.9)	135.6
Provision (benefit) for income taxes	(53.6)	0.5	0.5	0.6	11.4
Minority interest in earnings of subsidiary	—	—	—	—	3.0
Income (loss) before extraordinary item and cumulative effect of accounting change	133.0	32.7	5.5	(16.5)	121.2
Extraordinary loss, net of tax benefit[c]	4.3	19.2	—	41.6	10.3
Cumulative effect of accounting change[d]	—	—	—	—	7.1
Net income (loss)	$ 128.7	$ 13.5	$ 5.5	$ (58.1)	$ 103.8
Net income (loss) attributable to common shares	$ 128.7	$ 9.9	$ 0.2	$ (127.9)	$ 21.8
Net income (loss) per common share[e]	$ 2.42	$ 0.23	$ 0.01	$ (2.07)	$ 0.29
Weighted average number of diluted shares outstanding	53,097,898	42,968,652	32,355,131	61,703,436	75,047,353

(In millions)	Fiscal Year Ended June 30, 2000	1999	1998	1997	1996
OTHER DATA:					
Adjusted EBITDA:[f]					
EBIT	$ 146.5	$ 110.8	$ 83.5	$ 36.1	$ 202.8
Depreciation and amortization[g]	32.3	33.5	28.3	24.4	25.7
EBITDA of Divested Operations[h]	—	—	—	(0.9)	(22.4)
Asset value impairment/(recapture)[i]	(2.3)	—	—	6.5	—
Loss (gain) on sale of Divested Operations[b]	—	—	—	5.0	(123.3)
Terminated transactions[j]	—	2.1	—	—	—
Benefit costs[k]	—	—	2.9	—	—
Headcount reduction and relocation[l]	—	—	—	—	9.0
Recapitalization expenses[a]	—	—	—	47.4	—
Special charges related to plant consolidation	10.9	17.2	9.6	—	—
Expenses of acquisitions[m]	—	1.4	6.9	—	—
Inventory write-up[m]	—	2.8	3.4	—	—
Adjusted EBITDA	$ 187.4	$ 167.8	$ 134.6	$ 118.5	$ 91.8
Adjusted EBITDA margin[f]	12.8%	11.2%	10.3%	10.1%	8.6%
Cash flows provided by (used in) operating activities	$ (7.1)	$ 96.1	$ 97.0	$ 25.2	$ 58.4
Cash flows provided by (used in) investing activities	(65.9)	(86.2)	(222.0)	37.0	169.9
Cash flows provided by (used in) financing activities	71.2	(9.9)	127.0	(63.4)	(222.8)
Capital expenditures	67.8	55.0	32.1	20.3	15.8
SELECTED RATIOS:					
Ratio of earnings to fixed charges[n]	2.0x	1.4x	1.1x	—	2.8x
Deficiency of earnings to cover fixed charges[n]	—	—	—	$ 15.9	—

(In millions)	June 30, 2000	1999	1998	1997	1996
BALANCE SHEET DATA:					
Working capital	$ 149.8	$ 187.3	$ 210.2	$ 118.1	$ 209.2
Total assets	1,040.7	872.0	845.1	666.9	735.9
Total debt	632.1	543.4	709.7	609.7	372.4
Redeemable preferred stock	—	—	32.5	32.2	213.4
Stockholders' equity (deficit)	10.6	(118.4)	(349.8)	(398.8)	(288.1)

(a) In connection with Del Monte's recapitalization, which was consummated on April 18, 1997, administrative and general expenses of approximately $25.0 million were incurred primarily for management incentive payments and, in part, for severance payments. In addition, $22.3 million of other expenses were incurred in conjunction with the recapitalization, primarily for legal, investment advisory and management fees.

(b) In the fiscal quarter ended December 1996, Del Monte sold Del Monte Latin America. The combined sales price of $49.5 million, reduced by $1.3 million of related transaction expenses, resulted in a loss of $5.0 million. In November 1995, Del Monte sold its pudding business for $88.8 million, net of $3.9 million of related transaction fees. The sale resulted in a gain of $71.3 million. In March 1996, Del Monte sold its 50.1% ownership interest in Del Monte Philippines for $100.0 million, net of $2.2 million of related transaction fees. The sale resulted in a gain of $52.0 million.

(c) During February 2000, the Company repurchased $31.0 million of senior subordinated notes. In conjunction with this debt prepayment, an extraordinary loss of $5.2 million ($4.3 million net of tax benefit of $0.9 million) was recorded. This extraordinary loss consisted of $3.7 million of prepayment premiums and a $1.5 million write-off of capitalized deferred debt issue costs and original issue discount. In fiscal 1999, Del Monte recorded a $19.2 million extraordinary loss. In conjunction with the February 1999 public equity offering, Del Monte redeemed all outstanding preferred stock, a portion of senior subordinated notes and a portion of senior discount notes, as well as an early retirement of senior debt. In connection with these payments, $5.5 million of capitalized debt issue costs were written off and $13.7 million of redemption premiums were paid, both of which Del Monte recorded as extraordinary items. In fiscal 1997, $41.6 million of expenses related to the early retirement of debt due to the exchange of Pay-in-Kind ("PIK") notes and to Del Monte's recapitalization was charged to net income. In September 1996, Del Monte repurchased PIK notes and, concurrently, exchanged essentially all remaining PIK notes for new PIK notes. In conjunction with this repurchase and exchange, capitalized debt issue costs of $3.6 million, net of a discount on the PIK notes, were written off and accounted for as an extraordinary loss. In conjunction with the refinancing of debt that occurred at the time of the recapitalization in fiscal 1997, Del Monte recorded a $38.0 million extraordinary loss related to the early retirement of debt. The $38.0 million consisted of previously capitalized debt issue costs of $18.8 million and a note premium payment and a term loan make-whole payment aggregating $19.2 million. In December 1995 and April 1996, Del Monte prepaid part of its term loan and senior secured notes. In conjunction with the early debt retirement, Del Monte recorded an extraordinary loss of $10.3 million. The extraordinary loss consisted of a $5.0 million prepayment premium and a $5.3 million write-off of capitalized debt issue costs related to the early retirement of debt.

(d) Effective July 1, 1995, Del Monte adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The cumulative effect of adopting SFAS No. 121 resulted in a charge to fiscal 1996 net earnings of $7.1 million.

(e) Net income (loss) attributable to the shares of common stock is computed as net income (loss) reduced by the cash and in-kind dividends for the period on redeemable preferred stock.

(f) Adjusted EBITDA represents EBITDA (income (loss) before provision (benefit) for income taxes, minority interest, extraordinary item, cumulative effect of accounting change and depreciation and amortization expense, plus interest expense) before special charges and other one-time and non-cash charges, less gains (losses) on sales of divested assets and the results of the Divested Operations (as defined below). Adjusted EBITDA should not be considered in isolation from, and is not presented as an alternative measure of, operating income or cash flow from operations (as determined in accordance with GAAP). Adjusted EBITDA as presented may not be comparable to similarly titled measures reported by other companies. Since Del Monte has undergone significant structural changes during the periods presented, management believes that this measure provides a meaningful measure of operating cash flow (without the effects of working capital changes) for the core and continuing business of Del Monte by normalizing the effects of operations that have been divested and one-time charges or credits. Adjusted EBITDA margin is calculated as Adjusted EBITDA as a percentage of net sales (excluding net sales of Divested Operations of $48.1 million and $232.3 million for the years ended June 30, 1997 and 1996).

(g) Depreciation and amortization excluded amortization of $3.0 million, $3.4 million, $3.3 million, $4.7 million and $4.8 million of deferred debt issuance costs for fiscal 2000, 1999, 1998, 1997 and 1996, which are included in the caption "Interest expense." In addition, in fiscal 2000, 1999 and 1998, depreciation and amortization excluded $4.3 million, $9.4 million and $3.0 million of accelerated depreciation, which is included in the caption "Special charges related to plant consolidation."

(h) At the end of fiscal 1997, a distribution agreement expired under which Del Monte sold certain products for Premier Valley Foods (formerly Yorkshire Dried Fruits and Nuts, Inc.) at cost. During fiscal 1996 and the first half of fiscal 1997, Del Monte sold its pudding business, its 50.1% interest in Del Monte Philippines and all of its interest in Del Monte Latin America. These events are collectively referred to as the "Divested Operations."

(i) In the fourth quarter of fiscal 2000, the Company entered into a joint venture to develop the site of a former dried fruit plant location in San Jose. This property had previously been written-down in fiscal 1996 upon initial adoption of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The value assigned to this property which was contributed in the joint venture was higher than the carrying cost resulting in a recapture of the previous write-down. In fiscal 1997, non-cash charges included $6.5 million related to the recognition of an other than temporary impairment of a long-term equity investment.

(j) In fiscal 1999, one-time charges included $2.1 million of costs of the public equity offering that was withdrawn due to conditions in the equity securities market in July 1998.

(k) In fiscal 1998, one-time and non-cash charges included $2.9 million of stock compensation and related benefit expense.

(l) In fiscal 1996, other one-time charges included $3.3 million for relocation costs and $5.7 million of costs associated with a significant headcount reduction.

(m) In fiscal 1999, one-time charges included $0.9 million of indirect acquisition-related expenses incurred in connection with the South America Acquisition, as well as $0.5 million of one-time start-up costs, and $2.8 million of inventory step-up due to the purchase price allocation related to the Contadina Acquisition and the South America Acquisition. In fiscal 1998, one-time charges included $6.9 million of indirect acquisition-related expenses incurred in connection with the Contadina Acquisition and $3.4 million of inventory step-up due to the purchase price allocation related to the Contadina Acquisition.

(n) For purposes of determining the ratio of earnings to fixed charges and the deficiency of earnings to cover fixed charges, earnings are defined as income (loss) before extraordinary item, cumulative effect of accounting change and provision (benefit) for income taxes plus fixed charges. Fixed charges consist of interest expense on all indebtedness (including amortization of deferred debt issue costs) and the interest component of rent expense.

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity of Del Monte during the three-year period ended June 30, 2000. This discussion should be read in conjunction with the audited consolidated financial statements of Del Monte for the three-year period ended June 30, 2000 and notes thereto included elsewhere in this Annual Report on Form 10-K.

GENERAL

Del Monte reports its financial results on a July 1 to June 30 fiscal year basis to coincide with its inventory production cycle, which is highly seasonal. Raw product is harvested and packed primarily in the months of June through October, during which time inventories rise to their highest levels. At the same time, consumption of canned products declines, reflecting, in part, lower levels of promotional activity, the availability of fresh alternatives and other factors. This situation impacts operating results as sales volumes, revenues and profitability decline during this period. Results over the remainder of the fiscal year are affected by many factors including industry supply and Del Monte's share of that supply. See "—Seasonality."

In 1997, in connection with Del Monte's recapitalization, Del Monte began implementing a new business strategy designed to improve sales and operating margins by: (1) increasing market share and distribution of high margin value-added products; (2) introducing new products and packaging; (3) increasing penetration of high growth distribution channels, such as supercenters and warehouse clubs; (4) achieving cost savings through operating efficiencies, plant consolidations and investments in new and upgraded equipment; and (5) completing strategic acquisitions.

Consistent with Del Monte's strategy to generate growth through acquisitions, Del Monte consummated the Contadina Acquisition in December 1997. The Contadina Acquisition contributes another established brand and positions Del Monte as the branded market leader in the high margin canned solid tomato category. The Contadina Acquisition also establishes a strong presence for Del Monte in the branded paste-based tomato products category, which includes tomato paste, tomato sauce and pizza sauce. Del Monte believes that Contadina's strong brand recognition, particularly in paste-based tomato products, complements Del Monte's brand leadership in canned solid tomato products and enhances Del Monte's market share and household penetration. Del Monte also reacquired the rights to the *Del Monte* brand in South America in August 1998. That acquisition has opened a new geographic market for Del Monte.

In addition to diversifying further Del Monte's revenue base, the Contadina Acquisition expanded Del Monte's processing scale, which has resulted in production cost efficiencies. Moreover, among the facilities acquired by Del Monte was a state-of-the-art manufacturing facility at Hanford, California. In the third quarter of fiscal 1998, Del Monte committed to a plan to consolidate processing operations over a three-year period. As part of these efforts, Del Monte transferred tomato production at its Modesto, California facility to Hanford following the summer 1998 pack. Del Monte converted its Modesto facility to a fruit processing facility that has assumed the production previously conducted at Del Monte's San Jose, California facility and will assume the production currently conducted at the Stockton, California facility. Del Monte closed its San Jose facility in December 1999 and will close its Stockton facility after the production season in 2000. In connection with these actions, Del Monte

recorded charges of $6.6 million in the third quarter of fiscal 1998, principally relating to severance. Del Monte incurred additional charges as a result of these plant closures. These charges included accelerated depreciation resulting from the effects of adjusting the tomato and fruit processing assets' remaining useful lives to match the period of use prior to the closure of these plants. Accelerated depreciation totaling $4.3 million and $9.4 million was recorded in fiscal 2000 and 1999, respectively, and $3.0 million of such depreciation was recorded in the fourth quarter of fiscal 1998. In addition, Del Monte incurred costs to remove and dispose of those assets, as well as ongoing fixed costs during the Modesto plant reconfiguration and until the sale of the San Jose and Stockton properties. These costs totaled $6.6 million in fiscal 2000 and $4.3 million in fiscal 1999. Del Monte's results over the next three-year period are expected to be affected by related plant consolidation charges as follows: $2.9 million in fiscal 2001, $0.7 million in fiscal 2002, and $0.3 million in fiscal 2003. See Note 12 to the consolidated financial statements for the year ended June 30, 2000. In addition, Del Monte's vegetable processing plant located in Arlington, Wisconsin was closed in August 1998. Total costs incurred in connection with this closure were $3.5 million primarily relating to asset write-offs. Del Monte recorded this expense in the first quarter of fiscal 1999.

The plant consolidation plan is a major component of a capital investment program of approximately $100.0 million started by Del Monte a little over three years ago. A total of $94.0 million has been spent on this program as of June 30, 2000. Del Monte's goal for this program is to achieve cumulative cost savings by the end of the fifth year estimated at approximately $170.0 million. As of June 30, 2000, Del Monte estimates that approximately $68.0 million in cumulative cost savings have been generated by this capital investment program.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items from Del Monte's consolidated statements of income, expressed as percentages of Del Monte's net sales for such periods:

	Fiscal Year Ended June 30,		
	2000	1999	1998
Net sales	100.0%	100.0%	100.0%
Cost of products sold	63.0	66.4	68.4
Selling, administrative and general expense	26.3	24.9	24.1
Special charges related to plant consolidation	0.7	1.1	0.7
Acquisition expenses	—	0.1	0.5
Operating income	10.0%	7.5%	6.3%
Interest expense	4.6%	5.2%	5.9%

The following table sets forth, for the periods indicated, Del Monte's net sales by product categories, expressed in dollar amounts and as percentages of Del Monte's total net sales for such periods:

	Fiscal Year Ended June 30,		
(In millions)	2000	1999	1998
NET SALES:			
Canned vegetables[a]	$ 507.7	$ 508.0	$ 466.2
Canned fruit[a]	564.6	562.3	526.5
Tomato products[a]	377.4	423.8	320.6
Subtotal domestic	1,449.7	1,494.1	1,313.3
South America	12.9	10.4	—
Intercompany sales	(0.5)	—	—
Total net sales	$ 1,462.1	$ 1,504.5	$ 1,313.3
AS A PERCENTAGE OF NET SALES:			
Canned vegetables[a]	34.7%	33.7%	35.5%
Canned fruit[a]	38.6	37.4	40.1
Tomato products[a]	25.8	28.2	24.4
Subtotal domestic	99.1	99.3	100.0
South America	0.9	0.7	—
Intercompany sales	—	—	—
Total	100.0%	100.0%	100.0%

(a) Includes sales of the entire product line across each channel of distribution, including sales to grocery chains, warehouse clubs, supercenters, mass merchandisers and other grocery retailers, as well as Del Monte's foodservice, food ingredients, export and vegetable private label businesses and military sales.

SEASONALITY

Del Monte's quarterly operating results have varied in the past and are likely to vary in the future based upon a number of factors. Del Monte's historical net sales have exhibited seasonality, with the second and third fiscal quarters having the highest net sales. These two quarters reflect increased sales of Del Monte's products during the holiday period in the United States extending from late November through December, as well as sales associated with the Easter holiday. Lower levels of promotional activity, the availability of fresh produce and other factors have historically affected net sales in the first fiscal quarter. Quarterly gross profit primarily reflects fluctuations in sales volumes and is also affected by the overall product mix. Del Monte's fruit operations have a greater percentage of annual sales and cost of products sold in the first fiscal quarter, as compared to its vegetable and tomato operations, due principally to increased sales of fruit cups during the "back to school" period. Del Monte's vegetable and fruit

operations have a greater percentage of annual sales and cost of products sold in the second and third fiscal quarters, principally due to the year-end holiday season, and sales of ketchup and related cost of products sold typically increase in the fourth fiscal quarter. Selling, administrative and general expense tends to be greater in the first half of the fiscal year, reflecting promotional expenses relating to the "back to school" period and the year-end holiday season, while Easter is the only major holiday in the second half of the fiscal year.

The annual production volume of vegetable, fruit and tomatoes is driven by projected demand in the following year. Annual production is also influenced by general seasonal fluctuations primarily due to weather and overall growing conditions.

Del Monte ended fiscal 2000 with higher than desired inventory levels. In order to reduce certain inventory levels, production volumes will be lower during the 2000 production season. This lower pack will result in higher fixed costs per case. These higher costs are expected to increase costs of products sold as expressed as a percentage of net sales, but are not expected to significantly impact overall profitability.

FISCAL 2000 VS. FISCAL 1999

Net Sales

Consolidated net sales for fiscal 2000 decreased by $42.4 million, or 2.8%, from fiscal 1999. (Approximately 0.9% of consolidated net sales were generated by Del Monte's South American business in fiscal 2000.) The decrease in sales in the current year primarily reflects the Company's strategy to shift emphasis towards sales of higher margin products and to reduce emphasis on lower margin commodity items. This resulted in a decrease in sales in the foodservice/food ingredients channel. Excluding the foodservice/food ingredients channel, net sales for the year increased approximately one percent over last year, primarily reflecting continued growth in the club and mass merchandisers channel and growth from new products (*Fruit To-Go* and continued expansion of *Orchard Select*) offset by lower sales in the retail tomato business. Ketchup sales declined due to strong competitive activity; additionally, tomato sauce sales declined due to less aggressive merchandising.

Although net sales were down as compared to prior year, the Company's market share increased in all three major processed food categories. In fiscal 2000, Del Monte's market share for *Del Monte* branded vegetables, based on case volume, was 23.7% versus 21.3% in the previous year, while Del Monte's market share for *Del Monte* branded fruit products was 44.2% compared to 42.8% for the previous year. Del Monte's market share for solid tomato products was 17.5% in fiscal 2000 compared to 17.0% in fiscal 1999.

Cost of Products Sold

Costs decreased by $77.8 million in fiscal 2000 as compared to fiscal 1999, with cost of products sold expressed as a percentage of net sales of 63.0% in fiscal 2000 and 66.4% in fiscal 1999. The decrease in costs in fiscal 2000 was primarily due to lower sales. In addition, the decrease in cost of products sold as a percentage of net sales was due to lower costs as a result of capital spending initiatives and other favorable cost reductions, as well as a favorable sales mix of higher margin products.

Selling, Administrative and General Expense

Selling, administrative and general expense as a percentage of net sales was 26.3% and 24.9% in fiscal 2000 and 1999, respectively. Selling, administrative and general expense for fiscal 2000 was higher due to an investment in new products and in order to support growth in the retail business.

Research and development costs of $6.6 million and $6.2 million in fiscal 2000 and 1999, respectively, were included in general and administrative expenses.

Special Charges Related to Plant Consolidation

Del Monte incurred special charges of $10.9 million in fiscal 2000 compared to special charges of $17.2 million in the prior year. These charges included accelerated depreciation expense of $4.3 million and $9.4 million in fiscal 2000 and fiscal 1999, respectively, resulting from the effects of adjusting the assets' remaining useful lives to accelerate the depreciation thereof. Special charges for fiscal 2000 and 1999 also included $5.9 million and $2.4 million, respectively, of on-going fixed costs and other period costs primarily incurred at the Modesto facility while under reconfiguration. Costs incurred for removal of tomato and fruit processing equipment to be disposed of totaled $2.7 million and $1.9 million in fiscal 2000 and 1999, respectively. Also included in fiscal 2000 was a reduction of $1.3 million in the severance accrual established in fiscal 1998, and a reduction of the accrual related to the Arlington plant closure of $0.7 million as the proceeds of the sale of the plant exceeded original projections.

Interest Expense

Interest expense decreased 13.5% in fiscal 2000 compared to fiscal 1999. This decrease was due to the lower average outstanding debt balances.

Other (Income) Expense

Other expense for fiscal 2000 decreased as compared to fiscal 1999 due to the inclusion in 1999 of expenses related to the withdrawn July 1998 public equity offering.

Provision (Benefit) for Income Taxes

The income tax benefit of $53.6 million was primarily attributable to the release of the majority of the valuation allowance. Management evaluated the available evidence and concluded it is more likely than not that the Company will realize its net deferred tax assets. In reaching this conclusion, significant weight was given to the Company's current, as well as recent cumulative profitability.

Net Income before Extraordinary Item

Net income for fiscal 2000 increased by $100.3 million compared to the same period of prior year. The increase in net income is primarily due to the recognition of the valuation allowance, a more profitable mix of products sold and reduced plant consolidation costs.

Extraordinary Item

In conjunction with the repayment of $31.0 million of senior subordinated notes, Del Monte recorded an extraordinary loss. The extraordinary item charge consisted of the write-off of $1.5 million of previously capitalized debt issue costs related to the redeemed notes and original issue discount and $3.7 million of redemption premiums, net of tax benefit.

FISCAL 1999 VS. FISCAL 1998

South America Acquisition

On July 10, 1998, Del Monte entered into an agreement with Nabisco Inc. ("Nabisco") to reacquire rights to the *Del Monte* brand in South America from Nabisco, Inc. and to purchase Nabisco's canned vegetable and tomato business in Venezuela, including a food processing plant in Venezuela. The transaction closed on August 28, 1998 for a cash purchase price of $31.8 million. In connection with this acquisition, Del Monte incurred approximately $0.9 million of indirect acquisition expenses. RJR Nabisco had retained ownership of the *Del Monte* brand in South America and the Del Monte business in Venezuela when it sold other Del Monte businesses in 1990. This transaction was accounted for using the purchase method of accounting. The purchase price was allocated as $3.1 million to inventory, $0.5 million to property, plant and equipment and $28.2 million representing intangible assets.

Net Sales

Consolidated net sales for fiscal 1999 increased by $191.2 million, or 14.6%, compared to fiscal 1998, primarily due to higher volumes in the vegetable and fruit businesses, sales growth of 38% over prior year in the club and mass merchandisers channel and Contadina product sales (which accounted for $95.1 million of the increase in fiscal 2000 primarily due to a full year of Contadina versus six months in fiscal 1998). Approximately 0.7% of consolidated net sales were generated by Del Monte's South American business. The following discusses the increases within Del Monte's major product lines. Vegetable product sales increased due to the successful implementation of a new vegetable marketing strategy, which has resulted in merchandising efficiencies, the impact of improved packaging in club stores and a higher margin product mix. Fruit product sales increased in fiscal 1999 as compared to the prior year, primarily due to the introduction of new products (*FruitRageous* and *Fruit Pleasures* single-serve fruit products and the *Orchard Select* fruit-in-glass product), which began national distribution during the first quarter of fiscal 1999. Fruit product sales also increased due to growth in the higher margin categories of fruit cups, specialty fruit and buffet fruit. In fiscal 1999, Del Monte's market share for *Del Monte* branded vegetables, based on case volume, was 21.3% versus 20.0% in the previous year, while Del Monte's market share for *Del Monte* branded fruit products was 42.8% compared to 42.2% for the previous year. Del Monte's market share for solid tomato products was 17.0% in fiscal 1999 compared to 16.5% in the previous year.

Cost of Products Sold

Cost of products sold as a percent of net sales was 66.4% for fiscal 1999, compared to 68.4% for fiscal 1998. The decrease in cost of products sold as a percent of net sales was primarily due to manufacturing cost decreases, higher product pricing and a favorable product mix. Manufacturing costs were favorable in the current year period as compared to the prior year period due to more favorable raw product costs, cost savings from capital spending initiatives and increased production levels.

Selling, Administrative and General Expense

Selling, administrative and general expense increased by $58.9 million for fiscal 1999 compared to fiscal 1998. The increase in selling, administrative and general expense was primarily due to higher marketing costs associated with the introduction of new products, promotion cost increases resulting from higher volumes of product sold (including the increase due to the acquisition of Contadina) and increased spending resulting from higher levels of promotional activity.

Included in general and administrative expenses are research and development costs of $6.2 million and $5.3 million for fiscal 1999 and 1998. Research and development spending in fiscal 1999 and 1998 remained focused on strategic spending to maintain the existing business and to develop product line extensions.

Special Charges Related to Plant Consolidation

Del Monte incurred special charges of $17.2 million in fiscal 1999 compared to special charges of $9.6 million ($6.6 million severance accrual and $3.0 million accelerated depreciation) in fiscal 1998. Special charges for fiscal 1999 included $9.4 million of accelerated depreciation related to buildings and machinery and equipment that will no longer be needed following the consolidation of the operations of two fruit processing plants and two tomato processing plants as compared to $3.0 million in fiscal 1998 related to accelerated depreciation. The plant consolidation plan was not implemented until the end of fiscal 1998, therefore, only three months of accelerated depreciation was included in prior year's special charges as compared to twelve months of accelerated depreciation in the current year. Special charges for fiscal 1999 also included $2.4 million of on-going fixed costs and other period costs incurred at the Modesto facility while under reconfiguration, as well as a $1.9 million charge, recorded during the second quarter of fiscal 1999, representing costs to be incurred for removal of tomato processing equipment to be disposed of. In addition, special charges for 1999 also included $3.5 million, representing primarily the write-down to fair value of assets held for sale related to the closure of the Arlington, Wisconsin plant, which was recorded in the first quarter of fiscal 1999.

Interest Expense

Interest expense was relatively flat in fiscal 1999. Debt balances increased significantly in mid fiscal 1998 due to the Contadina Acquisition. However, after the February 1999 public equity offering, debt balances decreased in fiscal 1999 since the proceeds of the offering were used primarily to repay debt.

Other Expense

Other expense for fiscal 1999 represented expenses of the public equity offering that was withdrawn due to conditions in the equity securities market in July 1998. These expenses were charged to earnings during the first quarter of fiscal 1999 upon the withdrawal of that offering.

Provision (Benefit) for Income Taxes

As of June 30, 1999, Del Monte had $53.4 million in net operating loss carryforwards for tax purposes, which will expire between 2009 and 2012.

Net Income before Extraordinary Item

Net income before extraordinary item for fiscal 1999 was $32.7 million compared to net income of $5.5 million in fiscal 1998. This increase was primarily due to an increase in operating income resulting from higher net sales and more favorable manufacturing and product costs in fiscal 1999 compared to fiscal 1998. The increase was somewhat offset by higher special charges related to plant consolidation and costs of the withdrawn July 1998 public equity offering.

Extraordinary Item

Proceeds of the February 1999 public equity offering were used to redeem preferred stock and a portion of the outstanding subordinated notes and to repay senior debt. The extraordinary item charge consisted of the write-off of $5.5 million of previously capitalized debt issue costs related to the redeemed notes and early debt retirement and $13.7 million of redemption premiums.

RECENTLY ISSUED ACCOUNTING STANDARDS

In fiscal 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") (as amended by SFAS Nos. 137 and 138). SFAS No. 133 is required to be adopted for all fiscal quarters and fiscal years beginning after June 15, 2000 and relates to accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair value. Based on the Company's current limited use of derivative instruments, Del Monte anticipates that adoption of SFAS No. 133 will not have a significant effect on its results of operations or its financial position.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 is to be adopted for fiscal years beginning after December 15, 1999, which for the Company would be fiscal year 2001. SAB 101 addresses various topics in revenue recognition. The Company is currently analyzing SAB 101, however based on management's current understanding and interpretation, SAB 101 is not expected to have a material impact on the Company's consolidated financial statements.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation—An Interpretation of Accounting Principles Board Opinion ("APB") No. 25." FIN 44 clarifies the application of APB 25 and is effective July 1, 2000. The Company believes that its current accounting policies are in conformity with this interpretation, and does not believe that FIN 44 will have a material effect on the Company's consolidated financial statements.

In July 2000, the Emerging Issues Task Force ("EITF") reached a consensus on Issue 00-10, "Accounting for Shipping and Handling Fees and Costs." This issue addresses the income statement classification for shipping and handling fees and costs by companies. The Company believes that its current accounting policies are in conformity with this issue, and does not believe that EITF 00-10 will have a material effect on the Company's consolidated financial statements.

In May 2000, the EITF reached a consensus on Issue 00-14, "Accounting for Certain Sales Incentives." This issue addresses the recognition, measurement, and income statement classification for sales incentives offered voluntarily by a vendor without charge to customers that can be used in, or are exercisable by a customer as a result of, a single exchange transaction. The Company is currently analyzing EITF 00-14, however based on management's current understanding and interpretation, EITF 00-14 is not expected to have a material impact on the Company's consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Del Monte's primary cash requirements are to fund debt service, finance seasonal working capital needs and make capital expenditures. Internally generated funds and amounts available under its revolving credit facility (the "Revolver") are Del Monte's primary sources of liquidity.

Management believes that cash flow from operations and availability under the Revolver will provide adequate funds for Del Monte's working capital needs, planned capital expenditures and debt service obligations for at least the next 12 months.

Del Monte's ability to fund its cash requirements and to remain in compliance with all of the financial covenants under its debt agreements depends on its future operating performance and cash flow. These are in turn subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond Del Monte's control.

As part of its business strategy, Del Monte continuously reviews acquisition opportunities. Del Monte believes that any acquisition would likely require the incurrence of additional debt, which could exceed amounts available under the Bank Financing (as defined in "Financing Activities—2000 Activity"). As a result, completion of any such acquisition could require the consent of the lenders under the Bank Financing and the amendment and restatement of the terms thereof, including to permit Del Monte's compliance with its covenants. Del Monte cannot predict whether, or the terms on which, the lenders under the Bank Financing would grant their consent.

Operating Activities

The working capital position of Del Monte is seasonally affected by the growing cycle of the vegetables, fruit and tomatoes it processes. Substantially all inventories are produced during the harvesting and packing months of June through October and depleted through the remaining seven months. Accordingly, working capital requirements fluctuate significantly. Del Monte uses funds from its Revolver, which provides for a $350.0 million line of credit, to finance the seasonal working capital needs of its operations.

In fiscal 2000, cash used in operating activities was $7.1 million, primarily due to an increase in inventories. In fiscal 1999, cash provided by operations was $96.1 million, primarily due to a significant increase in sales.

Investing Activities

In fiscal 2000, cash used in investing decreased by $20.3 million as compared to fiscal 1999, primarily due to the purchase of the South American business in fiscal 1999. In fiscal 1999, cash used in investing decreased by $135.8 million as compared to fiscal 1998 due to the purchase of Contadina in fiscal 1998.

Capital expenditures for fiscal 2000 were $67.8 million, including $11.0 million for the purchase of the Cambria, Wisconsin plant and approximately $0.6 million for domestic environmental compliance, as Del Monte continued its implementation of a program which is intended to generate cost savings by introducing new equipment that would result in general production efficiencies. Of the remaining $56.2 million of capital expenditures for fiscal 2000, Del Monte spent approximately $21.5 million in connection with its plans to consolidate processing operations and $34.7 million for general manufacturing improvements. Del Monte plans an aggregate of approximately $50.0 million in capital expenditures for fiscal 2001 with approximately $5.5 million of those expenditures to be incurred in connection with the Company's continuing program to consolidate processing operations. Del Monte continually evaluates its capital expenditure requirements, and such plans are subject to change depending on market conditions, Del Monte's cash position, the availability of alternate means of financing and other factors. Del Monte expects to fund capital expenditures from internally generated cash flows and by borrowing from available financing sources.

Financing Activities—2000 Activity

Credit Agreement Amendment and Repayment of a Portion of 12¼% Notes. On January 14, 2000, the Company amended its senior credit agreement with respect to its Revolver and term loan facility (Term A Loan and Term B Loan, collectively the "Term Loan," and together with Revolver, the "Bank Financing"). The amendment provided for additional borrowing capacity (up to $100.0 million) under either the Revolver or Term B Loan. The proceeds of this borrowing were used to reduce the Revolver balance. Under this provision, the Company increased its Term B borrowings by $100.0 million in August 2000. The amendment also adjusted certain financial covenants to reflect changes in the Company's recent financial performance. The amendment did not change the Revolver's expiration date, the Term Loan maturity dates or the terms of the pricing schedule.

The amendment allowed the prepayment of up to $35.0 million of senior subordinated notes. During February 2000, the Company repurchased $31.0 million of 12¼% notes through the use of funds that carry a lower interest rate. In conjunction with this early debt prepayment, an extraordinary loss of $5.2 million ($4.3 million net of tax benefit of $0.9 million) was recorded, consisting of prepayment premiums and a write-off of capitalized deferred debt issue costs and original issue discount.

Financing Activities—1999 Activity

Public Equity Offering. On February 10, 1999, the public equity offering, consisting of 16,667,000 shares of common stock sold by Del Monte and 3,333,000 shares of common stock sold by certain stockholders of Del Monte, was consummated at an initial offering price of $15.00 per share. Del Monte received net proceeds of $229.7 million. Total common shares outstanding after the offering were 52,163,943. Del Monte used a portion of the net proceeds from the public equity offering to redeem $45.6 million of its redeemable preferred stock, including

$2.3 million of unamortized discount, $10.0 million of accreted dividends and $0.7 million of redemption premium. Del Monte also used $57.4 million of the net proceeds to redeem a portion of its senior discount notes, including $1.5 million of accrued interest and $6.4 million of redemption premium. Del Monte contributed the remainder of the net proceeds to DMC, its principal subsidiary. DMC used the contribution to prepay $63.3 million of its indebtedness under its bank term loans, to redeem $61.8 million of its senior subordinated notes, including $0.9 million of accelerated amortization of original issue discount, $2.7 million of accrued interest and $6.6 million of redemption premium, and to repay $1.6 million of indebtedness under the Revolver.

Financing Activities—1998 Activity

Contadina Acquisition. In connection with the $194.9 million Contadina Acquisition, Del Monte issued the senior discount notes (the "Del Monte Notes") with an aggregate principal amount at maturity of $230.0 million and received gross proceeds of $125.5 million. The Del Monte Notes accrue interest at 12.50% which accretes on each June 15 and December 15 through December 15, 2002, after which time interest is required to be paid in cash until maturity. The Del Monte Notes mature on December 15, 2007. A portion of the net proceeds from the February 1999 public equity offering was used to redeem 35% of the Del Monte Notes.

In connection with the Contadina Acquisition, Del Monte also amended the Bank Financing and certain related debt covenants to permit additional funding under the existing Term B Loan in an amount of $50.0 million, thus increasing the aggregate amount outstanding at that time under the Term Loan to $430.0 million.

Restrictive Covenants

The DMC Notes, the Del Monte Notes, Term Loan and Revolver agreements contain restrictive covenants which require Del Monte to meet certain financial tests, including minimum fixed charge coverage, minimum adjusted net worth and maximum leverage ratios. These requirements and ratios generally become more restrictive over time, subject to allowances for seasonal fluctuations. Del Monte was in compliance with all debt covenants at June 30, 2000. The credit agreements applicable to DMC generally limit through restricted payment covenants the ability of DMC to make cash payments to Del Monte, thereby limiting Del Monte's ability to pay monetary dividends.

Pension Funding

As described more fully in Note 8 of the audited consolidated financial statements as of and for the year ended June 30, 2000, Del Monte's defined benefit retirement plans were previously determined to be underfunded under federal ERISA guidelines. It had been Del Monte's policy to fund Del Monte's retirement plans in an amount consistent with the funding requirements of federal law and regulations and not to exceed an amount that would be deductible for federal income tax purposes. In connection with Del Monte's recapitalization, Del Monte entered into an agreement with the Pension Benefit Guaranty Corporation dated April 7, 1997 whereby Del Monte contributed $15.0 million within 30 days after the consummation of the recapitalization. Del Monte contributed $15.0 million in calendar 1998 and $9.0 million in calendar 1999. Del Monte will contribute a minimum of $8.0 million in calendar 2000, of which $4.0 million has been paid by June 30, 2000. Del Monte will also contribute a minimum of $8.0 million in calendar 2001, for a total of $55.0 million. The contributions required to be made in 2000 and 2001 have been secured by a $14.0 million letter of credit. This letter of credit is subject to periodic reduction as contributions are made in accordance with the agreement.

Environmental Matters

Del Monte spent approximately $1.8 million on domestic environmental expenditures from fiscal 1998 through fiscal 2000, primarily related to UST remediation activities and upgrades to boilers and wastewater treatment systems. Del Monte projects that it will spend an aggregate of approximately $3.1 million in fiscal 2001 and 2002 on capital projects and other expenditures in connection with environmental compliance, primarily for boiler upgrades, compliance costs related to the consolidation of its fruit and tomato processing operations and continued UST remediation activities. Del Monte believes that its liabilities under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and other environmental liabilities will not have a material adverse effect on Del Monte's financial position or results of operations. See "Business—Environmental Compliance."

Tax Net Operating Loss Carryforwards

As of June 30, 2000, Del Monte had $37.5 million in net operating loss carryforwards for tax purposes, which will expire in 2012. Applicable laws may limit Del Monte's use of these net operating loss carryforwards in any year.

Inflation

Del Monte's costs are affected by inflation and Del Monte may experience the effects of inflation in future periods. However, Del Monte has historically mitigated the inflationary impact of increases in its costs by controlling its overall cost structure.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

Del Monte's primary market risk exposure is that of interest rate risk. Del Monte has entered into interest-rate cap agreements limiting Del Monte's exposure to interest rate increases, thus limiting the impact of interest-rate increases on future income. Del Monte uses derivatives only for purposes of managing risk associated with the underlying exposures. Del Monte does not trade or use instruments with the objective of earning financial gains on interest rate fluctuations alone, nor does it use instruments where there are not underlying exposures. Complex instruments involving leverage or multipliers are not used. Management believes that its use of these instruments to manage risk is in Del Monte's best interest and that any resulting market risk exposure would not materially effect Del Monte's operating results. (Market risk exposure has been defined as the change in fair value of a derivative financial instrument assuming a hypothetical 10% adverse change in market rates.)

Del Monte also has an insignificant degree of market risk exposure in regards to currency risk. Except for sales within South America by Del Monte's subsidiaries in Columbia and Venezuela, Del Monte requires payment in United States currency. If non-United States domiciled customers' local currency devalues significantly against the United States dollar, the customers could potentially encounter difficulty in making the United States dollar-denominated payments.

Del Monte does not believe it has any material commodity risk since Del Monte purchases most of its raw product requirements under arrangements whereby pricing has not fluctuated significantly in recent years. See "Business—Supply and Production" and Note 10 to the audited consolidated financial statements for the year ended June 30, 2000.

FACTORS THAT MAY AFFECT FUTURE RESULTS

The future operating results of Del Monte may be materially affected by a number of factors, including, among others, those factors discussed below.

This annual report also contains forward-looking statements, including those in the sections captioned "Business," "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Financial Statements and Supplementary Data." Statements that are not historical facts, including statements about Del Monte's beliefs or expectations, are forward-looking statements. These statements are based on plans, estimates and projections at the time Del Monte makes the statements, and you should not place undue reliance on them. Del Monte does not undertake to update any of these statements in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. Del Monte cautions you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. These factors include, among others: general economic and business conditions; weather conditions; crop yields; competition; raw material costs and availability; the loss of significant customers; market acceptance of new products; successful integration of acquired businesses; consolidation of processing plants; changes in business strategy or development plans; availability, terms and deployment of capital; changes in, or the failure or inability to comply with, governmental regulations, including, without limitation, environmental regulations; industry trends and capacity and other factors discussed below.

Our High Leverage Could Adversely Affect Our Business

Del Monte is highly leveraged. Del Monte can incur additional indebtedness, even though its principal credit facility imposes some limits on the ability to do so. Because its business is seasonal, Del Monte's borrowings fluctuate significantly during the year, generally peaking in September and October. Del Monte's high degree of leverage can have important adverse consequences, such as:

- Limiting Del Monte's ability to obtain additional financing;
- Limiting Del Monte's ability to invest operating cash flow in its business;
- Limiting Del Monte's ability to compete with companies that are not as highly leveraged;
- Increasing Del Monte's vulnerability to economic downturns and changing market conditions; and
- Increasing Del Monte's vulnerability to fluctuations in market interest rates.

Del Monte's ability to pay its debt service depends partly on its performance. Del Monte's financial position could also prevent it from obtaining necessary financing at favorable rates, including at times when it must refinance maturing debt. If Del Monte cannot pay its debt service and meet its other liquidity needs from operating cash flow, it could have substantial liquidity problems. If Del Monte defaults on any of its debt, the relevant lenders could accelerate the maturity of the debt and take other actions that could adversely affect Del Monte. For example, in the event of a default under Del Monte's Bank Financing, the lenders could foreclose on the security for the facility, which includes virtually all of the assets of Del Monte.

Our Business is Highly Competitive

Many companies compete in the domestic canned vegetable, fruit and tomato product categories. However, only a few well-established companies operate on both a national and a regional basis with one or several branded product lines. Del Monte faces strong competition from these and other companies in all its product lines. Important competitive considerations include the following:

- Some of Del Monte's competitors have greater financial resources and operating flexibility;
- Several of Del Monte's product lines are sensitive to competition from regional brands, and many of Del Monte's product lines compete with imports, private label products and fresh alternatives;
- Del Monte cannot predict the pricing or promotional actions of its competitors or whether they will have a negative effect on Del Monte. Also, when Del Monte raises its prices, Del Monte may lose market share to its competitors; and
- The canned food industry has in the past experienced processing over-capacity, which could create an imbalance in supply and demand that depresses sales volumes or prices.
- Tri Valley Growers, a significant competitor in the canned fruit business, filed for bankruptcy on July 10, 2000. If Tri Valley chooses to drop prices or increase discounts materially in order to generate cash due to its financial situation, that could negatively impact Del Monte's fruit and tomato businesses.

Our Business Strategy Poses Special Risks Associated with Our Ability to Reduce Costs, Reach Targeted Customers and Complete Acquisitions Successfully

The success of Del Monte's business strategy depends in part on its ability to reduce costs. Del Monte's performance also depends on its ability to increase sales of its higher margin products and to increase product distribution through high volume warehouse clubs. Del Monte also plans to increase operating results through acquisitions. All of these plans involve risks, including the following:

- Del Monte is converting its Modesto facility from tomato to fruit processing. Following its seasonal 2000 pack of fruit, Del Monte will shut down the Stockton facility for consolidation into Modesto. To assure production capacity for the 2001 fruit harvest, Del Monte must complete the conversion of the Modesto facility by June 2001. If Del Monte does not meet this timetable to any significant degree, fruit production could be materially reduced;
- Del Monte may not complete capital projects on time or within budget;
- Cost saving measures can sometimes impair a company's ability to respond rapidly to changes in the industry;
- Warehouse clubs and mass merchandisers do not enter into long-term contracts and purchase products based on their inventory levels. They can stop purchasing Del Monte's products at any time;
- Acquisitions could require the consent of Del Monte's main bank lenders;
- Del Monte may not be able to integrate successfully acquired businesses, including personnel, operating facilities and information systems, into its existing operations; and
- In pursuing acquisitions, Del Monte could incur substantial additional debt and contingent liabilities.

Severe Weather Conditions and Natural Disasters Can Affect Crop Supplies and Reduce Our Operating Results

Severe weather conditions and natural disasters, such as floods, droughts, frosts, earthquakes or pestilence, may affect the supply of Del Monte's products. These events can result in reduced supplies of raw materials, lower recoveries of usable raw materials, higher costs of cold storage if harvests are accelerated and processing capacity is unavailable or interruptions in Del Monte's production schedules if harvests are delayed.

Our Operating Results Are Highly Seasonal

Del Monte does not manufacture the majority of its products continuously, but instead has a production period that is limited to approximately three to four months during the summer each year. Del Monte's working capital requirements are also seasonal and are most significant in the first and second fiscal quarters. Del Monte's sales tend to peak in the second and third fiscal quarters each year, mainly as a result of the holiday period in November and December and the Easter holiday. By contrast, in the first fiscal quarter of each year, sales generally decline, mainly due to less promotional activity and the availability of fresh produce.

Our Business is Subject to the Risk of Environmental Liability

As a result of its agricultural, food processing and canning activities, Del Monte is subject to various environmental laws and regulations. Del Monte has been named as a potentially responsible party ("PRP") and may be liable for environmental investigation and remediation costs at certain designated "Superfund Sites" under CERCLA or under similar state laws. Del Monte may in the future be named as a PRP at other currently or previously owned or operated sites, and additional remediation requirements could be imposed. Also, under the federal Food, Drug and Cosmetic Act and the Food Quality Protection Act of 1996, the U.S. Environmental Protection Agency is involved in a series of regulatory actions relating to the evaluation and use of pesticides in the food industry. The effect of such actions and future actions on the availability and use of pesticides could have a material adverse impact on Del Monte's financial position or results of operations.

TPG Continues to Control Del Monte

TPG Partners, L.P. and some of its affiliates (collectively, "TPG") own 46.6% of the common stock. TPG's large interest may also discourage, delay, deter or prevent a change in control of Del Monte or discourage bids for the common stock at a premium price. Del Monte also has contractual relationships with TPG, under which TPG provides it with financial advisory and other services. These arrangements could give rise to conflicts of interest.

Our Debt Covenants Can Restrict Our Operating Flexibility

Del Monte is subject to various financial and operating covenants under its principal credit facility, including limitations on asset sales, the amount of debt it can incur or repay and the amount and kind of distributions that it and its subsidiaries may make. Del Monte must also meet specified financial ratios and tests, including minimum net worth, minimum fixed charge coverage and maximum leverage ratios. Del Monte has pledged substantially all of its assets to secure its bank and other debt.

Our Brand Name Could Be Confused with Names of Other Companies

Del Monte has licensed the *Del Monte* brand name to various unaffiliated companies internationally and, for some of its products, in the United States. Acts or omissions by these unaffiliated companies may adversely affect the value of the *Del Monte* brand name, the trading prices for the common stock and demand for Del Monte's products.

Fluctuation in Market Price of the Common Stock

The common stock has a limited trading history. Although the common stock is listed on the New York Stock Exchange and the Pacific Exchange, an active trading market may not be sustained. The market price could also fluctuate substantially in response to various factors and events, including the liquidity of the market for the common stock, differences between Del Monte's actual performance and that expected by investors and analysts, changes in analysts' recommendations or projections, pricing and competition in Del Monte's industry, new statutes or regulations and changes in general market conditions.

Our Anti-Takeover Defenses May Depress Our Stock Price or Discourage Premium-Generating Transactions

Anti-takeover provisions under state law and in Del Monte's certificate of incorporation and bylaws may deter, delay or prevent hostile takeovers and other attempts to make changes in Del Monte's Board of Directors or management. The fact that we have these provisions may depress our stock price and could discourage transactions in which stockholders might otherwise receive a premium over the market value of their shares. Under these provisions:

- Members of Del Monte's Board have staggered terms;
- Stockholders are not entitled to cumulative voting rights;
- Only a majority of the Board, and not stockholders, may call a meeting of stockholders;
- Certain matters must be approved by a supermajority vote of stockholders;
- Del Monte can issue preferred stock on any terms it decides without the approval of common stockholders; and
- Del Monte can implement, without stockholder approval, a "rights" or "poison pill" plan without the approval of common stockholders.

REPORT OF INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND STOCKHOLDERS

DEL MONTE FOODS COMPANY

We have audited the accompanying consolidated balance sheets of Del Monte Foods Company and subsidiaries as of June 30, 2000 and 1999, and the related consolidated statements of income, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended June 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Del Monte Foods Company and subsidiaries as of June 30, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

July 21, 2000
San Francisco, California

CONSOLIDATED BALANCE SHEETS

(In millions, except share data)	June 30, 2000	June 30, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5.1	$ 6.9
Trade accounts receivable, net of allowance	109.2	139.0
Inventories	425.3	343.0
Deferred tax assets	12.3	—
Prepaid expenses and other current assets	25.9	12.6
Total current assets	577.8	501.5
Property, plant and equipment, net	341.8	312.5
Deferred tax assets	61.9	—
Intangibles, net	41.6	43.3
Other assets, net	17.6	14.7
Total assets	$ 1,040.7	$ 872.0
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$ 238.9	$ 267.1
Short-term borrowings	153.5	15.7
Current portion of long-term debt	35.6	31.4
Total current liabilities	428.0	314.2
Long-term debt	443.0	496.3
Other noncurrent liabilities	159.1	179.9
Total liabilities	1,030.1	990.4
Stockholders' equity (deficit):		
Common stock ($0.01 par value per share, shares authorized: 500,000,000; issued and outstanding: 52,219,792 in 2000 and 52,171,537 in 1999)	0.5	0.5
Notes receivable from stockholders	(0.4)	(0.4)
Additional paid-in capital	400.1	399.8
Retained earnings (deficit)	(389.6)	(518.3)
Total stockholders' equity (deficit)	10.6	(118.4)
Total liabilities and stockholders' equity (deficit)	$ 1,040.7	$ 872.0

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except share data)	Year Ended June 30, 2000	1999	1998
Net sales	$ 1,462.1	$ 1,504.5	$ 1,313.3
Cost of products sold	920.5	998.3	898.2
Selling, administrative and general expense	384.2	375.3	316.4
Special charges related to plant consolidation	10.9	17.2	9.6
Acquisition expense	—	0.9	6.9
Operating income	146.5	112.8	82.2
Interest expense	67.1	77.6	77.5
Other expense (income)	—	2.0	(1.3)
Income before income taxes and extraordinary item	79.4	33.2	6.0
Provision (benefit) for income taxes	(53.6)	0.5	0.5
Income before extraordinary item	133.0	32.7	5.5
Extraordinary loss from early debt retirement, net of tax benefit	4.3	19.2	—
Net income	$ 128.7	$ 13.5	$ 5.5
Basic net income per common share:			
Income before extraordinary item	$ 2.55	$ 0.69	$ 0.01
Net income	2.47	0.23	0.01
Diluted net income per common share:			
Income before extraordinary item	$ 2.50	$ 0.68	$ 0.01
Net income	2.42	0.23	0.01

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(In millions, except share data)	Common Stock Shares	Common Stock Amount	Notes Receivable from Stockholders	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Stockholders' Equity (Deficit)
Balance at June 30, 1997	26,815,880	$ —	$ —	$ 128.5	$ (527.3)	$ (398.8)
Amortization of redeemable preferred stock discount				(0.3)		(0.3)
Notes issued to stockholders			(0.4)			(0.4)
Issuance of shares	8,679,178			44.2		44.2
Net income					5.5	5.5
Balance at June 30, 1998	35,495,058	—	(0.4)	172.4	(521.8)	(349.8)
Amortization of redeemable preferred stock discount				(2.3)		(2.3)
Payment of preferred stock dividends					(10.0)	(10.0)
Issuance of shares	16,676,479	0.5		250.0		250.5
Costs of public equity offering				(20.3)		(20.3)
Net income					13.5	13.5
Balance at June 30, 1999	52,171,537	0.5	(0.4)	399.8	(518.3)	(118.4)
Issuance of shares	48,255			0.3		0.3
Net income					128.7	128.7
Balance at June 30, 2000	52,219,792	$ 0.5	$ (0.4)	$ 400.1	$ (389.6)	$ 10.6

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Year Ended June 30, 2000	1999	1998
OPERATING ACTIVITIES:			
Net income	$ 128.7	$ 13.5	$ 5.5
Adjustments to reconcile net income to net cash flows:			
Extraordinary loss from early debt retirement, net of tax benefit	4.3	19.2	—
Net loss (gain) on disposal/revaluation of assets	(2.2)	4.7	1.3
Noncash interest expense	12.6	14.0	8.5
Depreciation and amortization	39.6	46.3	34.6
Deferred taxes	(74.2)	—	—
Stock option compensation expense	—	—	1.8
Changes in operating assets and liabilities net of effects of acquisition:			
Accounts receivable	29.8	(31.5)	(40.3)
Inventories	(82.3)	26.4	73.7
Prepaid expenses and other current assets	(13.3)	7.8	(5.0)
Other assets	(2.0)	0.4	0.2
Accounts payable and accrued expenses	(35.5)	8.5	27.6
Other non-current liabilities	(12.6)	(13.2)	(10.9)
Net cash provided by (used in) operating activities	(7.1)	96.1	97.0
INVESTING ACTIVITIES:			
Capital expenditures	(56.8)	(55.0)	(32.1)
Proceeds from sales of assets	1.9	0.6	5.0
Acquisition of plant	(11.0)	—	—
Acquisition of business	—	(31.8)	(194.9)
Net cash used in investing activities	(65.9)	(86.2)	(222.0)
FINANCING ACTIVITIES:			
Short-term borrowings	492.2	494.3	300.2
Payment on short-term borrowings	(354.4)	(478.6)	(382.0)
Proceeds from long-term borrowings	—	—	175.6
Principal payments on long-term debt	(62.4)	(197.3)	(1.9)
Deferred debt issuance costs	(0.8)	—	(6.9)
Prepayment penalty	(3.7)	(13.7)	—
Preferred stock dividends	—	(10.0)	—
Preferred stock redemption	—	(35.0)	—
Proceeds from issuance of common and preferred stock	—	250.0	42.4
Equity offering costs	—	(20.3)	—
Other	0.3	0.7	(0.4)
Net cash provided by (used in) financing activities	71.2	(9.9)	127.0
Net change in cash and cash equivalents	(1.8)	—	2.0
Cash and cash equivalents at beginning of period	6.9	6.9	4.9
Cash and cash equivalents at end of period	$ 5.1	$ 6.9	$ 6.9

See accompanying Notes to Consolidated Financial Statements.

June 30, 2000
(In millions, except share data)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Business and Segment Information

Del Monte Foods Company ("Del Monte") and its wholly-owned subsidiary, Del Monte Corporation ("DMC"), (Del Monte together with DMC, "the Company") operate in one business segment: the manufacturing and marketing of processed foods, primarily canned vegetable, fruit and tomato products. Del Monte primarily sells its products under the *Del Monte* brand to a variety of food retailers, supermarkets and mass merchandising stores. Del Monte holds the rights to the *Del Monte* brand for processed foods in the United States and in South America and to the *Contadina* brand world-wide.

Basis of Presentation

In the second quarter of fiscal 2000, the financial statements were reformatted to extend dollars in millions out to one decimal place. All prior periods have been conformed to the current presentation. Minor rounding differences may result in prior periods due to this change in presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of Del Monte and its majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company accounts for its investments in joint ventures under the equity method of accounting, whereby the investment in joint venture is adjusted for the Company's share of the profit or loss of the joint venture.

Use of Estimates

Certain amounts reported in the consolidated financial statements are based on management estimates. The ultimate resolution of these items may differ from those estimates.

Cash Equivalents

Del Monte considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Inventories

Inventories are stated at the lower of cost or market. The cost of substantially all inventories is determined using the LIFO method. Del Monte has established various LIFO pools that have measurement dates coinciding with the natural business cycles of Del Monte's major inventory items. Inflation has had a minimal impact on production costs since Del Monte adopted the LIFO method as of July 1, 1991. As of June 30, 2000 and 1999, the LIFO reserve was a debit balance of $12.8 and $5.7, respectively.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost and are depreciated over their estimated useful lives, principally by the straight-line method. Maintenance and repairs are expensed as incurred. Significant expenditures that increase useful lives are capitalized. The principal estimated useful lives are: land improvements—10 to 30 years; buildings and leasehold improvements—10 to 30 years; machinery and equipment—7 to 15 years; computer software—2 to 10 years. Depreciation of plant and equipment and leasehold amortization was $34.8, $41.3 and $31.5 for the years ended June 30, 2000, 1999 and 1998.

Intangibles

Intangibles consist of goodwill, trade names and trademarks, and are carried at cost less accumulated amortization. Amortization expense is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 20 to 40 years. Amortization expense was $1.8, $1.6 and $0.2 for the years ended June 30, 2000, 1999 and 1998, respectively.

Environmental Remediation

Del Monte accrues for losses associated with environmental remediation obligations when such losses are probable, and the amounts of such losses are reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

Revenue Recognition

Revenue from sales of product, and related cost of products sold, is recognized upon shipment of product at which time title passes to the customer. Customers generally do not have the right to return product unless damaged or defective. In the year ended June 30, 2000, one customer accounted for approximately 13% of net sales.

Cost of Products Sold

Cost of products sold includes raw material, labor and overhead.

Advertising Expenses

Del Monte expenses all costs associated with advertising as incurred or when the advertising first takes place. Advertising expense was $3.6, $4.3 and $1.6 for the years ended June 30, 2000, 1999 and 1998, respectively.

Research and Development

Research and development costs are included as a component of "Selling, administrative and general expense." Research and development costs charged to operations were $6.6, $6.2 and $5.3 for the years ended June 30, 2000, 1999 and 1998, respectively.

Interest Rate Contracts

To manage interest rate exposure, Del Monte uses interest-rate cap agreements, and has used interest-rate swap agreements. These agreements involve the payment of fixed rate amounts in exchange for the receipt of floating rate interest over the life of the agreement without an exchange of the underlying principal amount. The differential to be paid or received is accrued as interest rates change and recognized as an adjustment to interest expense related to the debt. The related amount payable to or receivable from counterparties is included in other liabilities or assets.

Foreign Currency Translation

For Del Monte's operations in countries where the functional currency is other than the U.S. dollar, revenue and expense accounts are translated at the average rates during the period, and balance sheet items are translated at year-end rates.

Fair Value of Financial Instruments

The carrying amount of certain of Del Monte's financial instruments, including accounts receivable, accounts payable, and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

The carrying amounts of Del Monte's borrowings under its short-term revolving credit agreement and long-term debt instruments, excluding the senior subordinated notes and the senior discount notes, approximate their fair value. At June 30, 2000, the fair value of the senior subordinated notes with a carrying amount of $65.6 was $69.5 and of the senior discount notes with a carrying value of $110.4 was $111.5, as estimated based on quoted market prices from dealers.

The fair value of the interest rate cap agreements is the estimated amount that Del Monte would receive to terminate the agreements at the reporting date, taking into account current interest rates and the current credit worthiness of the counterparties. The fair value of the interest rate cap agreements at June 30, 2000 was insignificant.

Impairment of Long-Lived Assets

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" requires that Del Monte review assets held and used, including intangibles, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If an evaluation of recoverability is required, the estimated undiscounted future cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down is required. The statement also requires that all long-lived assets, for which management has committed to a plan to dispose, be reported at the lower of carrying amount or fair value.

Stock Option Plan

Del Monte accounts for its stock-based employee compensation for stock options using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, as allowed under SFAS No. 123. Accordingly, compensation cost is measured as the excess, if any, of the fair value of Del Monte's stock at the date of the grant over the price the employee must pay to acquire the stock.

Net Income per Common Share

Net income per common share is computed by dividing net income attributable to common shares by the weighted average number of common shares outstanding during the period (Note 6). Net income attributable to common shares is computed as net income reduced by the cash and in-kind dividends for the period in which redeemable preferred stock was outstanding.

Comprehensive Income

Del Monte has no significant items of other comprehensive income in any period presented. Therefore, net income as presented in the Consolidated Statements of Income equals comprehensive income.

Reclassifications

Certain prior year balances have been reclassified to conform with current year presentation.

NOTE 2. ACQUISITIONS

South America Acquisition

On August 28, 1998, Del Monte reacquired rights to the *Del Monte* brand in South America from Nabisco Inc. and purchased Nabisco's canned vegetable and tomato business in Venezuela, including a food processing plant, for a cash purchase price of $31.8 (the "South America Acquisition"). The South America Acquisition was accounted for using the purchase method of accounting. In connection with this acquisition, approximately $0.9 of indirect acquisition-related expenses were incurred. Nabisco had retained ownership of the *Del Monte* brand in South America and the Del Monte business in Venezuela when it sold other Del Monte businesses in 1990. Intangible assets recorded in this acquisition totaled $28.4.

Contadina Acquisition

On December 19, 1997, Del Monte acquired the Contadina canned tomato business, including the Contadina trademark worldwide, capital assets and inventory (the "Contadina Acquisition") from Nestlé USA, Inc. and Contadina Services, Inc. for a total purchase price of $194.9, comprised of a base price of $176.5 and an estimated net working capital adjustment of $18.4. The consideration was paid solely in cash. The Contadina Acquisition was accounted for using the purchase method of accounting. In connection with the Contadina Acquisition, approximately $6.9 of indirect acquisition-related expenses were incurred. Intangible assets recorded in this acquisition totaled $16.9.

NOTE 3. SUPPLEMENTAL BALANCE SHEET INFORMATION

	June 30, 2000	June 30, 1999
Trade accounts receivable:		
Trade	$ 110.1	$ 140.4
Allowance for doubtful accounts	(0.9)	(1.4)
Trade accounts receivable, net	$ 109.2	$ 139.0
Inventories:		
Finished product	$ 295.2	$ 219.1
Raw materials and supplies	19.0	17.7
Other, principally packaging material	111.1	106.2
Total inventories	$ 425.3	$ 343.0
Property, plant and equipment:		
Land and land improvements	$ 41.8	$ 41.9
Buildings and leasehold improvements	109.7	107.0
Machinery and equipment	356.5	321.8
Construction in progress	50.6	39.1
	558.6	509.8
Accumulated depreciation	(216.8)	(197.3)
Property, plant and equipment, net	$ 341.8	$ 312.5
Intangible assets:		
Trademark	$ 16.5	$ 16.5
Other intangibles	28.7	28.6
	45.2	45.1
Accumulated amortization	(3.6)	(1.8)
Intangible assets, net	$ 41.6	$ 43.3
Other assets:		
Deferred debt issue costs	$ 21.1	$ 21.3
Investments in joint ventures	5.1	—
Other	0.8	—
Accumulated amortization	(9.4)	(6.6)
Other assets, net	$ 17.6	$ 14.7

	June 30, 2000	June 30, 1999
Accounts payable and accrued expenses:		
Accounts payable—trade	$ 96.9	$ 104.1
Marketing and advertising	71.0	95.8
Payroll and employee benefits	19.4	19.4
Current portion of accrued pension liability	—	8.8
Current portion of other noncurrent liabilities	9.5	9.0
Other	42.1	30.0
Total accounts payable and accrued expenses	$ 238.9	$ 267.1
Other noncurrent liabilities:		
Accrued postretirement benefits	$ 136.0	$ 142.8
Accrued pension liability	—	2.3
Self-insurance liabilities	5.1	9.7
Other	18.0	25.1
Total other noncurrent liabilities	$ 159.1	$ 179.9

NOTE 4. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisted of a note payable to banks outside the United States of $0.2 at June 30, 2000 and a revolving credit agreement with $153.3 outstanding at June 30, 2000 and $15.7 at June 30, 1999. Unused amounts under the revolving credit agreement at June 30, 2000 and 1999 totaled $169.6 and $308.1, respectively. Unused lines of credit outside the United States at June 30, 2000 totaled $0.2.

On January 14, 2000, the Company amended its senior credit agreement with respect to its revolving credit facility (the "Revolver") and term loan facility (Term A Loan and Term B Loan, collectively the "Term Loan"). The amendment provided for additional borrowing capacity (up to $100.0) under either the Revolver or Term B Loan. Under this provision, the Company increased its Term B borrowings by $100.0 in August 2000. The proceeds of this borrowing were used to reduce the Revolver balance. The amendment also adjusted certain financial covenants to reflect changes in the Company's recent financial performance. The amendment did not change the Revolver's expiration date, the Term Loan maturity dates or the terms of the pricing schedule.

The amendment allowed the prepayment of up to $35.0 of senior subordinated notes. During February 2000, the Company repurchased $31.0 of these notes. In conjunction with this early debt prepayment, an extraordinary loss of $5.2 ($4.3 net of tax benefit of $0.9) was recorded. This extraordinary loss consisted of $3.7 of prepayment premiums and a $1.5 write-off of capitalized deferred debt issue costs and original issue discount.

In February 1999, Del Monte used $57.4 of the net proceeds of the public equity offering to redeem a portion of its senior discount notes, including $1.5 of accrued interest and $6.4 of redemption premium and to redeem all preferred stock outstanding (see Note 5). Del Monte contributed the remainder of the net proceeds to DMC, its principal subsidiary. DMC used the contribution to prepay $63.3 of its indebtedness under its bank term loans, to redeem $61.8 of its senior subordinated notes, including $0.9 of accelerated amortization of original issue discount, $2.7 of accrued interest and $6.6 of redemption premium, and to repay $1.6 of indebtedness under the revolving credit facility. In connection with the repayment of debt, $5.5 of previously capitalized debt issue costs were charged to income and accounted for as an extraordinary item, as well as a total of $13.7 of premiums on debt and stock redemption resulting in total extraordinary item charges of $19.2.

In December 1997 in conjunction with the Contadina Acquisition, Del Monte issued $230.0 of 12½% senior discount notes ("Del Monte Notes") and received proceeds of $125.5. The Del Monte Notes accrue interest on each June 15 and December 15, which accretes through December 15, 2002, after which time interest is to be paid in cash until maturity. The Del Monte Notes mature on December 15, 2007. The Del Monte Notes are redeemable in whole or in part at the option of Del Monte on or after December 15, 2002 at a price that initially is 106.250% of par and that decreases to par, if redeemed on December 15, 2006 or thereafter. In connection with the financing related to the Contadina Acquisition, $6.9 of deferred debt issuance costs were capitalized. Deferred debt issuance costs are amortized on a straight-line basis over the life of the related debt issuance.

On April 18, 1997, Del Monte entered into a credit agreement with respect to the Term Loan and the Revolver. The Revolver provides for revolving loans in an aggregate amount of up to $350.0, including a $70.0 letter of credit subfacility. The Revolver will expire in fiscal 2003. The Term Loan has two separate facilities, Term Loan A which matures in fiscal 2003, and Term Loan B which matures in fiscal 2005. In connection with the Contadina Acquisition, Del Monte amended its bank financing agreements and related debt covenants to permit additional funding under the existing Term Loan B which was drawn in an amount of $50.0.

The interest rates currently applicable to amounts outstanding under Term Loan A and the Revolver are, at Del Monte's option, either the base rate (the higher of 0.50% above the Federal Funds Rate or the bank's reference rate) plus 0.25% or the reserve adjusted offshore rate plus 1.25% (8.30% at June 30, 2000). Interest rates on Term Loan B are, at Del Monte's option, either the base rate plus 2.00% or the offshore rate plus 3.00% (9.78% at June 30, 2000).

Del Monte is required to pay the lenders under the Revolver a commitment fee of 0.35% on the unused portion of such facility. Del Monte is also required to pay the lenders under the Revolver letter of credit fees of 0.75% per year for commercial letters of credit and 1.25% per year for all other letters of credit, as well as an additional fee of 0.25% per year to the bank issuing such letters of credit. At June 30, 2000, a balance of $34.5 was outstanding on these letters of credit.

In April 1997, DMC issued senior subordinated notes (the "DMC Notes") with an aggregate principal amount of $150.0 and received gross proceeds of $146.9. The DMC Notes accrue interest at 12¼% per year, payable semi-annually in cash on each April 15 and October 15. The DMC Notes are guaranteed by Del Monte and mature on April 15, 2007. The DMC Notes are redeemable at the option of Del Monte on or after April 15, 2002 at a premium to par that initially is 106.313% and that decreases to par on April 15, 2006 and thereafter.

Long-term debt consisted of the following:

	June 30,	
	2000	1999
Term Loan	$ 302.6	$ 334.0
DMC Notes	65.6	95.9
Del Monte Notes	110.4	97.8
	478.6	527.7
Less current portion	35.6	31.4
	$ 443.0	$ 496.3

At June 30, 2000, scheduled maturities of long-term debt in each of the next five fiscal years and thereafter were as follows:

2001	$ 35.6
2002	39.8
2003	43.9
2004	47.0
2005	136.3
Thereafter	216.0
	518.6
Less discount on notes	40.0
	$ 478.6

The Term Loan and Revolver, with a combined balance of $455.9 at June 30, 2000, are collateralized by security interests in substantially all of Del Monte's assets.

The DMC Notes, the Del Monte Notes, Term Loan and Revolver (collectively "the Debt") agreements contain restrictive covenants with which Del Monte must comply. These restrictive covenants, in some circumstances, limit the incurrence of additional indebtedness, payment of dividends, transactions with affiliates, asset sales, mergers, acquisitions, prepayment of other indebtedness, liens and encumbrances. In addition, Del Monte is required to meet certain financial tests, including minimum fixed charge coverage, minimum adjusted net worth and maximum leverage ratios. Del Monte was in compliance with all of the Debt covenants at June 30, 2000.

Del Monte made cash interest payments of $52.7, $63.0 and $70.6 for the years ended June 30, 2000, 1999 and 1998.

Del Monte has entered into interest-rate cap agreements, with a combined cost of $0.3, limiting Del Monte's exposure on its floating rate debt to interest rate increases, thus reducing the impact of interest-rate increases on future income. Del Monte currently has interest rate caps on both the Term Loan and the Revolver. The notional amount of the Term Loan interest rate cap represents the full unamortized debt balance, excluding the $100.0 August 2000 Term B borrowing, during the term of the cap agreement. The notional amount of the Revolver interest rate cap represents approximately 60% of the expected monthly outstanding balance. The notional principal amount of floating rate debt covered by the interest rate cap agreements effectively converts this floating rate debt to a fixed-rate basis when the LIBOR rate sets above 8.0%. Both agreements are for a twelve-month period and will terminate June 30, 2001. The agreements involve the payment of fixed rate amounts in exchange for receipt of floating rate interest payments if the three-month LIBOR rate for the Term Loan or the one-month LIBOR rate for the Revolver set above 8.0% over the life of the agreements without an exchange of the underlying principal amount. The differential to be received is accrued as interest rates increase above 8.0% and is recognized as an adjustment to interest expense related to the debt. Del Monte is exposed to credit loss in the event of nonperformance by the other parties to the interest rate cap agreements. However, Del Monte does not anticipate nonperformance by the counterparties. Previous to entering into these interest rate cap agreements, the Company had two swap agreements both of which were no longer in effect by June 30, 2000. These agreements effectively converted $260.0 of notional principal amount of floating rate debt to a fixed-rate basis. The incremental effect of all interest rate hedges on interest expense for the year ended June 30, 2000 was $l.3.

NOTE 5. STOCKHOLDERS' EQUITY

On February 10, 1999, Del Monte's public equity offering, consisting of 16,667,000 shares of common stock sold by Del Monte and 3,333,000 shares of common stock sold by certain stockholders of Del Monte, was consummated at an initial offering price of $15.00 per share. Del Monte received net proceeds of $229.7. Total common shares outstanding after the offering were 52,163,943. Del Monte used a portion of the net proceeds from the offering to redeem $45.6 (100%) of its preferred stock, including $2.3 of unamortized discount, $10.0 of accreted dividends and $0.7 of redemption premium. The remainder of the net proceeds of the offering was used to redeem notes and repay debt (see Note 4).

The terms of Del Monte's debt limit the ability of Del Monte's subsidiaries to distribute cash or other assets, which could affect Del Monte's ability to pay dividends or make other distributions on the common stock.

NOTE 6. EARNINGS PER SHARE

The following tables set forth the computation of basic and diluted earnings per share:

	June 30,		
	2000	1999	1998
BASIC EARNINGS PER SHARE			
Numerator:			
Income per common share before extraordinary item	$ 133.0	$ 32.7	$ 5.5
Preferred stock dividends	—	(3.6)	(5.3)
Numerator for basic earnings per share—income attributable to common shares before extraordinary item	133.0	29.1	0.2
Extraordinary loss, net of tax benefit	(4.3)	(19.2)	—
Numerator for basic earnings per share—income attributable to common shares	$ 128.7	$ 9.9	$ 0.2
Denominator:			
Denominator for basic earnings per share—weighted average shares	52,192,676	41,979,665	31,619,642
Basic income per common share before extraordinary item	$ 2.55	$ 0.69	$ 0.01
Extraordinary loss per common share, net of tax benefit	(0.08)	(0.46)	—
Basic income per common share	$ 2.47	$ 0.23	$ 0.01
DILUTED EARNINGS PER SHARE			
Numerator:			
Income per common share before extraordinary item	$ 133.0	$ 32.7	$ 5.5
Preferred stock dividends	—	(3.6)	(5.3)
Numerator for diluted earnings per share—income attributable to common shares before extraordinary item	133.0	29.1	0.2
Extraordinary loss, net of tax benefit	(4.3)	(19.2)	—
Numerator for diluted earnings per share—income attributable to common shares	$ 128.7	$ 9.9	$ 0.2
Denominator:			
Weighted average shares	52,192,676	41,979,665	31,619,642
Effect of dilutive securities—stock options	905,222	988,987	735,489
Denominator for diluted earnings per share—weighted average shares	53,097,898	42,968,652	32,355,131
Diluted income per common share before extraordinary item	$ 2.50	$ 0.68	$ 0.01
Extraordinary loss per common share, net of tax benefit	(0.08)	(0.45)	—
Diluted income per common share	$ 2.42	$ 0.23	$ 0.01

NOTE 7. EMPLOYEE STOCK PLANS

AIAP Deferred Compensation Plan

On October 14, 1999, the Del Monte Corporation Annual Incentive Award Plan Deferred Compensation Plan was established under which certain employees are eligible to participate. Beginning in fiscal 2001, eligible employees may elect to defer from 5% to 100% of their annual incentive award. The Company provides a matching contribution of 25% of the employee's deferral amount. The employee deferral and the Company match are converted to deferred stock units at the fair market value of Del Monte common stock on the day the incentive awards are paid. The participant is 100% vested in the employee deferral portion of their account. The Company's matching contribution vests on a proportionate basis over three years. At the time of distribution, the employee's deferral amount and any vested Company matching contribution will be paid out in whole shares of Del Monte common stock.

Stock Option Incentive Plans

On August 4, 1997, Del Monte adopted the 1997 Stock Incentive Plan (amended November 4, 1997) which allowed the granting of options to certain key employees. The plan allowed the granting of options for up to 1,821,181 shares of Del Monte's common stock. Options could be granted as incentive stock options or as non-qualified options for purposes of the Internal Revenue Code. Options terminate ten years from the date of grant. Under the plan, 1,736,520 options were granted. As of June 30, 1999, eligible employees held options for 1,685,565 shares of common stock under the 1997 Plan. As of June 30, 2000, eligible employees held options for 1,524,670 shares of common stock under the 1997 Plan. The 1997 Stock Incentive Plan provides for different vesting schedules. The first provides for annual vesting on a proportionate basis over five years and the second provides for monthly vesting on a proportionate basis over four years. No additional options will be granted pursuant to this plan. Del Monte also adopted the Del Monte Foods Company Non-Employee Director and Independent Contractor 1997 Stock Incentive Plan. Under this plan, 151,701 shares were reserved of which 148,828 options were granted. These options terminate 10 years from the date of grant and vest monthly on a proportionate basis over four years. Del Monte does not anticipate granting any additional options under this plan.

The Del Monte Foods Company 1998 Stock Incentive Plan (the "1998 Plan") was adopted initially by the Board of Directors on April 24, 1998, was modified by the Board on September 23, 1998, and was approved by the stockholders on October 28, 1998. Under the 1998 Plan, grants of incentive and nonqualified stock options ("Options"), stock appreciation rights ("SARs") and stock bonuses (together with Options and SARs, "Awards") representing 3,317,047 shares of common stock may be made to certain employees of Del Monte. These shares represent 3,195,687 shares of common stock initially reserved under the 1998 Plan and any shares of common stock represented by awards granted under any prior plan which are forfeited, expired or canceled. The term of any Option or SAR may not be more than ten years from the date of its grant. Subject to certain limitations, the Compensation Committee of the Board has authority to grant Awards under the 1998 Plan and to set the terms of any Awards. The Chief Executive Officer also has limited authority to grant Awards. On December 4, 1998, Options for 1,824,433 shares were granted under the 1998 Stock Incentive Plan at an exercise price of $13.00 per

share, which was determined to be fair value at that time. As of June 30, 1999, eligible employees held options for 1,842,344 shares of common stock under the 1998 Plan, and 1,356,216 additional shares were available for grant. As of June 30, 2000, eligible employees held options for 1,724,380 shares of common stock under the 1998 Plan, and 1,592,667 additional shares were available for grant. For each of these grants, 50% of the option shares vest annually on a proportionate basis over a four-year period and 50% of the option shares vest annually on a proportionate basis over a five-year period.

Stock option activity and related information during the periods indicated was as follows:

	Shares Under Option	Outstanding Weighted Average Exercise Price	Options Exercisable	Exercisable Weighted Average Exercise Price
Balance at June 30, 1997	—	$ —	—	$ —
Granted	1,885,348	5.22		
Forfeited	46,353	5.22		
Exercised	—	—		
Balance at June 30, 1998	1,838,995	5.22	452,422	5.22
Granted	1,877,858	13.03		
Forfeited	35,519	13.00		
Exercised	4,597	5.22		
Balance at June 30, 1999	3,676,737	9.13	868,453	5.22
Granted	69,375	13.33		
Forfeited	308,699	9.96		
Exercised	39,535	5.22		
Balance at June 30, 2000	3,397,878	$ 9.19	1,596,691	$ 7.05

At June 30, 2000, the range of exercise prices and weighted-average remaining contractual life of outstanding options was as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Price Per Share	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 5.22	1,673,498	6.81	$ 5.22	1,222,295	$ 5.22
10.57–15.85	1,724,380	8.47	13.04	374,396	13.03
$ 5.22–15.85	3,397,878	7.65	$ 9.19	1,596,691	$ 7.05

Del Monte accounts for its stock option plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations, under which no compensation cost for stock options is recognized for stock option awards granted at or above fair market value.

Pro forma information regarding net income and earnings per share is required by FASB Statement No. 123, "Accounting for Stock Issued to Employees," and has been determined as if Del Monte had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions for the years ended June 30, 2000, 1999 and 1998: dividend yield of 0% for all years; expected volatility of 0.43, 0.23 and 0.00 respectively; risk-free interest rates of 5.99%, 4.623% and 5.74%, respectively, and expected lives of 7 years for all years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because Del Monte's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The weighted average fair value per share of options granted during the year was $6.72, $4.43 and $2.78, for the years ended June 30, 2000, 1999 and 1998, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Del Monte's pro forma information as calculated in accordance with SFAS No. 123 is as follows:

	Year Ended June 30,		
	2000	1999	1998
Pro forma net income	$ 126.2	$ 11.4	$ 4.9
Pro forma earnings (loss) per share:			
Basic	$ 2.42	$ 0.19	$ (0.01)
Fully diluted	$ 2.38	$ 0.18	$ (0.01)

Stock Purchase Plan

Effective August 4, 1997, the Del Monte Foods Company Employee Stock Purchase Plan was established under which certain key employees are eligible to participate. A total of 957,710 shares of common stock of Del Monte were reserved for issuance under the Employee Stock Purchase Plan. At June 30, 2000, 454,137 shares of Del Monte's common stock have been purchased by and issued to eligible employees. It is anticipated that no future shares will be issued pursuant to this plan.

Total compensation expense recognized in connection with stock-based awards for the years ended June 30, 2000, 1999 and 1998 was $0.2, $0.5 and $1.8.

NOTE 8. RETIREMENT BENEFITS

Del Monte sponsors three non-contributory defined benefit pension plans and several unfunded defined benefit postretirement plans providing certain medical, dental and life insurance benefits to eligible retired, salaried, non-union hourly and union employees.

	Pension Benefits June 30,		Other Benefits June 30,	
	2000	1999	2000	1999
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 279.0	$ 291.4	$ 75.0	$ 107.7
Service cost	3.5	3.5	1.0	1.3
Interest cost	19.9	19.5	5.4	7.3
Amendments	—	—	—	(23.5)
Acquisitions	—	—	0.4	—
Plan participants' contributions	—	—	3.5	2.7
Contadina acquisition	—	—	—	—
Actuarial (gains) losses	(7.5)	(9.4)	1.8	(11.4)
Benefits paid	(25.9)	(26.0)	(9.7)	(9.1)
Benefit obligation at end of year	$ 269.0	$ 279.0	$ 77.4	$ 75.0
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 297.4	$ 298.8	$ —	$ —
Actual return on plan assets	47.7	14.6	—	—
Employer contributions	8.5	10.0	6.2	6.4
Plan participants' contributions	—	—	3.5	2.7
Benefits paid	(25.9)	(26.0)	(9.7)	(9.1)
Fair value of plan assets at end of year	$ 327.7	$ 297.4	$ —	$ —
Funded status	$ 58.7	$ 18.4	$ (77.4)	$ (75.0)
Unrecognized net actuarial gain	(57.1)	(28.1)	(37.7)	(43.2)
Unrecognized prior service cost	(0.7)	(1.0)	(27.9)	(31.1)
Net amount recognized	$ 0.9	$ (10.7)	$ (143.0)	$ (149.3)

	Pension Benefits June 30,		Other Benefits June 30,	
Weighted average assumptions as of June 30,	2000	1999	2000	1999
Discount rate used in determining projected benefit obligation	8.00%	7.50%	8.00%	7.50%
Rate of increase in compensation levels	5.00	5.00	—	—
Long-term rate of return on assets	9.00	9.00	—	—

The components of net periodic pension cost for all defined benefit plans and other benefit plans are as follows:

	Pension Benefits June 30,			Other Benefits June 30,		
	2000	1999	1998	2000	1999	1998
Components of net periodic benefit cost						
Service cost for benefits earned during period	$ 3.5	$ 3.4	$ 3.1	$ 1.0	$ 1.3	$ 1.2
Interest cost on projected benefit obligation	19.9	19.5	20.5	5.4	7.3	7.8
Expected return on plan assets	(26.0)	(26.2)	(23.9)	—	—	—
Amortization of prior service cost	—	—	—	(3.2)	(1.0)	(1.0)
Recognized net actuarial (gain) loss	(0.5)	(0.8)	(1.1)	(3.6)	(2.8)	(3.1)
Benefit cost (credit)	$ (3.1)	$ (4.1)	$ (1.4)	$ (0.4)	$ 4.8	$ 4.9

For measurement purposes, an 8.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2000. The rate was assumed to decrease gradually to 5.00% in the year 2005 and remain at that level thereafter.

It has been Del Monte's policy to fund Del Monte's retirement plans in an amount consistent with the funding requirements of federal law and regulations and not to exceed an amount that would be deductible for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date but also for those benefits expected to be earned in the future. Del Monte's defined benefit retirement plans were previously determined to be underfunded under federal ERISA guidelines. Del Monte entered into an agreement with the Pension Benefit Guaranty Corporation, dated April 7, 1997, whereby Del Monte will contribute a total of $55.0 to its defined benefit pension plans through calendar 2001, of which $43.5 had been contributed by June 30, 2000. The contributions remaining to be made in calendar 2000 and 2001 are secured by a $14.0 letter of credit. This letter of credit is subject to periodic reduction as contributions are made in accordance with the agreement.

The health care cost trend rate assumption has a significant effect on the amounts reported. An increase in the assumed health care cost trend by 1% in each year would increase the postretirement benefit obligation as of June 30, 2000 by $7.7 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the period then ended by $0.8. A decrease in the assumed health care cost trend by 1% in each year would decrease the postretirement benefit obligation as of June 30, 2000 by $(5.3) and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the period then ended by $(0.6).

In addition, Del Monte participates in several multi-employer pension plans, which provide defined benefits to certain of its union employees. The contributions to multi-employer plans for the years ended June 30, 2000, 1999 and 1998 were $7.7, $7.2 and $6.3, respectively. Del Monte also sponsors defined contribution plans covering substantially all employees. Company contributions to the plans are based on employee contributions or compensation. Contributions under such plans totaled $1.7, $1.6 and $1.5 for the years ended June 30, 2000, 1999 and 1998.

NOTE 9. PROVISION (BENEFIT) FOR INCOME TAXES

The provision (benefit) for income taxes consists of the following:

	Year Ended June 30,		
	2000	1999	1998
Income (loss) before taxes and extraordinary items:			
Domestic	$ 79.9	$ 33.0	$ 6.0
Foreign	(0.5)	0.2	—
	$ 79.4	$ 33.2	$ 6.0
Income tax provision (benefit)			
Current:			
Federal	$ 20.6	$ 0.2	$ 0.5
State and foreign	—	0.3	—
Total current	20.6	0.5	0.5
Deferred:			
Federal	(66.6)	—	—
State and foreign	(7.6)	—	—
Total deferred	(74.2)	—	—
	$ (53.6)	$ 0.5	$ 0.5

Significant components of Del Monte's deferred tax assets and liabilities are as follows:

	Year Ended June 30,	
	2000	1999
Deferred tax assets:		
Post employment benefits	$ 50.0	$ 52.4
Pension liability	1.7	5.8
Purchase accounting	6.7	6.9
Workers' compensation	2.5	4.1
Leases and patents	1.8	2.5
Interest	10.2	5.8
State income taxes	7.6	8.9
Other	23.2	23.3
Net operating loss and tax credit carry forward	16.0	22.7
Gross deferred tax assets	119.7	132.4
Valuation allowance	(9.7)	(91.3)
Net deferred tax assets	110.0	41.1
Deferred tax liabilities:		
Depreciation	24.1	23.6
Intangible	3.8	3.6
LIFO reserve	7.6	13.9
Other	0.3	—
Gross deferred liabilities	35.8	41.1
Net deferred tax asset	$ 74.2	$ —

The Company released the majority of its valuation allowance in the fourth quarter of fiscal 2000. Management evaluated the available evidence and concluded it is more likely than not that the Company will realize its net deferred assets. In reaching this conclusion, significant weight was given to the Company's current, as well as cumulative, profitability. A valuation allowance of $9.7 was maintained for NOL carryforwards subject to limitations under Section 382 of the Internal Revenue Code. The net change in the valuation allowance for the years ended June 30, 2000 and 1999 was a decrease of $81.6 and $5.8, respectively.

The differences between the provision (benefit) for income taxes and income taxes computed at the statutory U.S. federal income tax rates are explained as follows:

	Year Ended June 30,		
	2000	1999	1998
Income taxes computed at the statutory U.S. federal income tax rates	$ 27.8	$ 11.6	$ 2.1
Taxes on foreign income at rates different than U.S. federal income tax rates	0.2	0.3	—
Reversal of valuation allowance, net of tax adjustments	(67.7)	—	—
Realization of prior years' net operating losses, tax credits and other adjustments	(12.2)	(11.4)	(1.6)
Other	(1.7)	—	—
Provision (benefit) for income taxes	$ (53.6)	$ 0.5	$ 0.5

As of June 30, 2000, Del Monte had operating loss carryforwards for U.S. tax purposes totaling $37.5, which will expire in 2012.

Del Monte made income tax payments of $9.0 and $2.6 for the years ended June 30, 2000 and 1999. Del Monte made no income tax payments for the year ended June 30, 1998.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Lease Commitments

Del Monte leases certain property and equipment and office and plant facilities. At June 30, 2000, the aggregate minimum rental payments required under operating leases that have initial or remaining terms in excess of one year were as follows:

2001	$ 28.3
2002	26.5
2003	24.6
2004	22.9
2005	21.4
Thereafter	218.0
	$ 341.7

Minimum payments have not been reduced by minimum sublease rentals of $0.4 due through 2002 under non-cancelable subleases. Rent expense was $33.7, $29.6 and $28.3 for the fiscal years ended June 30, 2000, 1999 and 1998, respectively. Rent expense includes contingent rentals on certain equipment based on usage.

Grower Commitments

Del Monte has entered into noncancelable agreements with growers, with terms ranging from two to ten years, to purchase certain quantities of raw products. Total purchases under these agreements were $69.1, $68.2 and $66.5 for the years ended June 30, 2000, 1999 and 1998.

At June 30, 2000, aggregate future payments under such purchase commitments (priced at the June 30, 2000 estimated cost) are estimated as follows:

2001	$ 54.3
2002	46.1
2003	40.7
2004	37.3
2005	34.4
Thereafter	65.1
	$ 277.9

In connection with the sale of Del Monte's 50.1% interest in Del Monte Philippines, a joint venture operating primarily in the Philippines, on March 29, 1996, Del Monte signed an eight-year supply agreement whereby Del Monte must source substantially all of its pineapple requirements from Del Monte Philippines over the agreement term. Del Monte expects to purchase $42.9 in fiscal 2001 under this supply agreement for pineapple products. During the year ended June 30, 2000, Del Monte purchased $40.8 under the supply agreement.

Supply Agreement

Effective December 21, 1993, Del Monte sold substantially all of the assets and certain related liabilities of its can manufacturing operations in the United States to Silgan Containers Corporation ("Silgan"). In connection with the sale to Silgan, Del Monte entered into a ten-year supply agreement under which Silgan, effective immediately after the sale, began supplying substantially all of Del Monte's metal container requirements for foods and beverages in the United States. Purchases under the agreement during the year ended June 30, 2000 amounted to $172.9. Del Monte believes the supply agreement provides it with a long-term supply of cans at competitive prices that adjust over time for normal manufacturing cost increases or decreases.

Information Systems Agreement

On November 1, 1992, Del Monte entered into an agreement with Electronic Data Systems Corporation to provide services and administration to Del Monte in support of its information services functions for all domestic operations. Payments under the terms of the agreement are based on scheduled monthly base charges subject to various adjustments such as system usage and inflation. Total payments for the years ended June 30, 2000, 1999 and 1998 were $17.0, $17.9 and $16.3, respectively. The agreement expires in November 2002 with optional successive one-year extensions. At June 30, 2000, base payments under the agreement are as follows:

2001	$ 13.7
2002	13.7
2003	4.6
	$ 32.0

Union Contracts

Del Monte has a concentration of labor supply in employees working under union collective bargaining agreements, which represent approximately 83% of its hourly and seasonal work force. Of these represented employees, 9% of employees are under agreements that will expire in calendar 2001.

Legal Proceedings

Del Monte is a defendant in an action brought by PPI Enterprises (U.S.), Inc. in the U.S. District Court for the Southern District of New York on May 25, 1999. The plaintiff has alleged that Del Monte breached certain purported contractual and fiduciary duties and made misrepresentations and failed to disclose material information to the plaintiff about the value of Del Monte and its prospects for sale. The plaintiff also alleges that it relied on Del Monte's alleged statements in selling its preferred and common stock interest in Del Monte to a third party at a price lower than that which the plaintiff asserts it could have received absent Del Monte's alleged conduct. The complaint seeks compensatory damages of at least $24 million, plus punitive damages. This case continues to be in the early stages of procedural motions and Del Monte cannot at this time reasonably estimate a range of exposure, if any. Del Monte believes that this proceeding is without merit and plans to defend it vigorously.

Del Monte is also defending various other claims and legal actions that arise from its normal course of business, including certain environmental actions. While it is not feasible to predict or determine the ultimate outcome of these matters, in the opinion of management none of these claims and actions, individually or in the aggregate, will have a material effect on Del Monte's financial position.

NOTE 11. RELATED PARTY TRANSACTIONS

DMC is directly-owned and wholly-owned by Del Monte. For the year ended June 30, 2000, DMC and DMC's subsidiaries accounted for 100% of the consolidated revenues and net earnings of Del Monte, except for those expenses incidental to the Del Monte Notes. As of June 30, 2000, Del Monte's sole asset was the stock of DMC. Del Monte had no subsidiaries other than DMC and DMC's subsidiaries, and had no direct liabilities other than the Del Monte Notes. Del Monte is separately liable under various guarantees of indebtedness of DMC, which guarantees of indebtedness are full and unconditional.

Del Monte entered into a ten-year agreement dated April 18, 1997 (the "Management Advisory Agreement") with TPG, a majority shareholder. Under this agreement, TPG is entitled to receive an annual fee from Del Monte for management advisory services equal to the greater of $0.5 and 0.05% of the budgeted consolidated net sales of Del Monte. For the years ended June 30, 2000, 1999 and 1998, TPG received fees of $0.8, $0.8 and $0.7 under this agreement. In addition, Del Monte has agreed to indemnify TPG, its affiliates and shareholders, and their respective directors, officers, controlling persons, agents, employees and affiliates from and against all claims, actions, proceedings, demands, liabilities, damages, judgments, assessments, losses and costs, including fees and expenses, arising out of or in connection with the services rendered by TPG thereunder. This indemnification may not extend to actions arising under the U.S. federal securities laws. This agreement makes available the resources of TPG concerning a variety of financial and operational matters, including advice and assistance in reviewing Del Monte's business plans and its results of operations and in evaluating possible strategic acquisitions, as well as providing investment banking services in identifying and arranging sources of financing. This agreement does not specify a minimum number of TPG personnel who must provide such services or the individuals who must provide them. It also does not require that a minimum amount of time be spent by such personnel on Company matters. Del Monte cannot otherwise obtain the services that TPG will provide without the addition of personnel or the engagement of outside professional advisors.

Del Monte also entered into a ten-year agreement dated April 18, 1997 (the "Transaction Advisory Agreement") with TPG. TPG is entitled to receive a fee of 1.5% of the "transaction value" for each transaction in which Del Monte is involved, which may include acquisitions, refinancings and recapitalizations. The term "transaction value" means the total value of any subsequent transaction, including, without limitation, the aggregate amount of the funds required to complete the subsequent transaction (excluding any fees payable pursuant to this agreement and fees, if any paid to any other person or entity for financial advisory, investment banking, brokerage or any other similar services rendered in connection with such transaction) including the amount of indebtedness, preferred stock or similar items assumed (or remaining outstanding). The advisory agreement includes indemnification provisions similar to those described above. These provisions may not extend to actions arising under the U.S. federal securities laws. In fiscal 2000, TPG did not receive any payments under this agreement. In fiscal 1999 TPG or its designee received $0.5 in connection with the South America Acquisition and $3.7 in connection with the public equity offering as compensation for its services as financial advisor for these transactions. In fiscal 1998, TPG or its designee received from Del Monte a fee of $3.0 upon the closing of the Contadina Acquisition.

NOTE 12. PLANT CONSOLIDATION

In the third quarter of fiscal 1998, management committed to a plan to consolidate processing operations. In connection with this plan, Del Monte established an accrual of $6.6 in fiscal 1998 relating to severance and benefit costs for 433 employees to be terminated. At June 30, 2000, a balance of $2.9 remained in this accrual. Cash expenditures of $0.1 were recorded against this accrual as of June 30, 1999. For the year ended June 30, 2000, cash expenditures charged to this accrual totaled $2.3. In the fourth quarter of fiscal 2000, this accrual was reduced by $1.3 due primarily to changes in severance and related benefit estimates. Implementation of the plant consolidation was planned to occur in a specific sequence over a three-year period. Operations were suspended at the Modesto facility for approximately a year while that facility underwent reconfiguration to accommodate fruit processing which has previously taken place at the San Jose facility and is currently taking place at the Stockton facility. Del Monte closed the San Jose facility in December 1999, and the sale of this property is expected to close in fiscal 2001. The Stockton facility will close after the 2000 production season. The tomato processing formerly performed at the Modesto facility has been moved to the Hanford facility.

In August 1998, management announced its intention to close Del Monte's vegetable processing plant located in Arlington, Wisconsin after the summer 1998 pack. Upon completion of this pack, a charge of $3.5 was taken during the first quarter of fiscal 1999 representing primarily the write-down to fair value of the assets held for sale. These assets included building, building improvements, and machinery and equipment with a carrying value of $4.1. Fair value was based on current market values of land and buildings in the area and estimates of market values of equipment to be disposed of. As of June 30, 1999, non-cash charges of $0.5 and cash expenditures of $0.4 were charged against this accrual. For the year ended June 30, 2000, non-cash charges of $1.8 and $0.1 of cash expenditures were charged against this accrual. In addition, upon the sale of this plant in fiscal 2000, the sale proceeds exceeded original estimates resulting in a reduction of the accrual of $0.7. No balance remained in this accrual at year-end June 30, 2000.

Del Monte incurred charges representing accelerated depreciation of $4.3 during fiscal 2000, $9.4 during fiscal 1999 and $3.0 during fiscal 1998. This acceleration results from the effects of adjusting the tomato and fruit processing assets' remaining useful lives to match the period of use prior to the closures of these plants. Assets that are subject to accelerated depreciation consist primarily of buildings and of machinery and equipment, which will no longer be needed due to the consolidation of the operations of the two fruit processing plants and the consolidation of the operations of two tomato processing plants. The remaining useful lives of the buildings at the San Jose facility were decreased by approximately 20 years due to this acceleration.

Del Monte anticipates that it will incur additional charges relating to plant closures of approximately $2.9 in fiscal 2001, $0.7 in fiscal 2002 and $0.3 in fiscal 2003. These expenses include costs to remove and dispose of assets and ongoing fixed costs to be incurred until the sale of the San Jose and Stockton properties. Costs incurred due to plant consolidation in fiscal 2000 were $10.9, including $4.3 of accelerated depreciation, $2.7 for equipment removal, $5.9 of ongoing fixed costs and other period costs, and a $2.0 reversal of prior accruals, as discussed above. Total charges relating to plant closures were $17.2 in fiscal 1999, including depreciation expense of $9.4, $1.9 representing direct costs incurred to remove and dispose of tomato processing equipment at Modesto that would not be transferred to Del Monte's tomato processing operations at the Hanford facility, as well as $3.5 for the Arlington closure and $2.4 of ongoing fixed costs and other period costs. Costs relating to plant closures recorded in fiscal 1998 totaled $9.6 (including depreciation expense of $3.0).

NOTE 13. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	First	Second	Third	Fourth
2000[2]				
Net sales	$ 333.7	$ 455.4	$ 353.3	$ 319.7
Operating income	25.0	48.9	34.0	38.6
Income before extraordinary item	6.9	22.8	13.2	90.1[4]
Net income	6.9	22.8	9.3	89.7[4]
Per share data:[3]				
Basic income per share before extraordinary item	0.13	0.44	0.18	1.72[4]
Diluted income per share before extraordinary item	0.13	0.43	0.18	1.70[4]
1999[1][2]				
Net sales	$ 317.6	$ 427.5	$ 389.5	$ 369.9
Operating income	12.0	32.7	31.6	36.5
Income (loss) before extraordinary item	(10.8)	10.2	12.1	21.2
Net income (loss)	(10.8)	10.2	(7.1)	21.2
Per share data:[3]				
Basic income (loss) per share before extraordinary item	(0.34)	0.24	0.25	0.41
Diluted income (loss) per share before extraordinary item	(0.34)	0.24	0.25	0.40

(1) The first and second quarters of fiscal 1999 included $2.5 and $0.3, respectively, of inventory step-up related to inventory purchased in the Contadina Acquisition and the South America Acquisition.

(2) Quarterly plant consolidation charges for the first, second, third and fourth quarters of fiscal 2000 were $3.0, $4.4, $2.4 and $1.1, respectively. Quarterly plant consolidation charges for the first, second, third and fourth quarters of fiscal 1999 were $7.0, $5.3, $2.5 and $2.4, respectively.

(3) Earnings per share were computed independently for each of the periods presented; therefore, the sum of the earnings per share amounts for the quarters may not equal the total for the year.

(4) The fourth quarter of fiscal 2000 included the release of the majority of the Company's valuation allowance, net of tax adjustments, resulting in a credit to income tax expense of $67.7.

NOTE 14. SUBSEQUENT EVENT (UNAUDITED)

On September 1, 2000, Del Monte acquired the world-wide rights to the *Sunfresh* brand fruit product line of UniMark Group, Inc. ("UniMark"), as well as certain finished goods inventory and UniMark's McAllen, Texas distribution center. The total purchase price for those assets was $14.5 paid solely in cash. The purchase price is subject to adjustment based on the inventory value at closing. Concurrently, the Company executed a five-year supply agreement under which a UniMark affiliate will produce certain chilled and canned citrus products at their existing facility in Mexico.

DIRECTORS

Richard G. Wolford
Chairman of the Board;
President & Chief Executive Officer;
Director

Wesley J. Smith
Chief Operating Officer; Director

Richard W. Boyce
Director

Timothy G. Bruer
Director

Al Carey
Director

Patrick Foley
Director

Brian E. Haycox
Director

Denise M. O'Leary
Director

William S. Price, III
Director

Jeffrey A. Shaw
Director

EXECUTIVE OFFICERS

Richard G. Wolford
Chairman of the Board;
President & Chief Executive Officer;
Director

Wesley J. Smith
Chief Operating Officer; Director

David L. Meyers
Executive Vice President, Administration
and Chief Financial Officer

John Alfieri
Senior Vice President, Sales

Richard L. French
Senior Vice President and
Chief Accounting Officer

Thomas E. Gibbons
Senior Vice President and Treasurer

Marc D. Haberman
Senior Vice President, Strategic
Planning and Business Development

Irvin R. Holmes
Senior Vice President, Marketing

William J. Spain
Senior Vice President and
Chief Corporate Affairs Officer

William R. Sawyers
Vice President, General Counsel
and Secretary

CORPORATE HEADQUARTERS

Del Monte Foods Company
One Market
San Francisco, CA 94105
415.247.3000
http://www.delmonte.com

MAILING ADDRESS

Del Monte Foods Company
One Market, P.O. Box 193575
San Francisco, CA 94119-3575

ANNUAL MEETING

The annual meeting of shareholders is
Wednesday, November 15, 2000, at 2:00pm
The Mark Hopkins Hotel
One Nob Hill
San Francisco, CA 94108

FORM 10-K

The Company files an Annual Report with the Securities and Exchange Commission on Form 10-K. Shareholders may obtain a copy of this report without charge by contacting:
Investor Relations
Del Monte Foods Company
One Market, P.O. Box 193575
San Francisco, CA 94119-3575
415.247.3382

TRANSFER AGENT & REGISTRAR

The Bank of New York
Shareholder Relations Department-11E
P.O. Box 11258
Church Street Station
New York, NY 10286
800.524.4458
e-mail: Shareowner-svcs@bankofny.com
http://stock.bankofny.com

MARKET PRICE AND DISTRIBUTION

Del Monte's common stock is traded on the New York Stock Exchange and the Pacific Exchange under the symbol DLM. The common stock was first traded on the NYSE on February 5, 1999, concurrent with the underwritten initial public offering of 20,000,000 shares of Del Monte Foods Company common stock at an initial price to the public of $15.00 per share. As of July 31, 2000, there were approximately 320 holders of record of Del Monte's common stock. The following table sets forth the high and low closing prices by quarter for the years ended June 30, 2000 and 1999:

	High	Low
2000		
First Quarter	16⅞	13½
Second Quarter	14⅝	9 5/16
Third Quarter	12⅝	8 7/16
Fourth Quarter	10¼	6 13/16
1999		
First Quarter	—	—
Second Quarter	—	—
Third Quarter	15⅝(1)	11⅜(1)
Fourth Quarter	16¾	11⅞

(1) For the period from February 5, 1999 to March 31, 1999.

Del Monte has not paid any cash dividends since issuance of the common stock. The terms of Del Monte's debt limit the ability of Del Monte's subsidiaries to distribute cash or other assets, which could affect Del Monte's ability to pay dividends or make other distributions on the common stock.

INDEPENDENT AUDITORS

KPMG LLP
Three Embarcadero Center
San Francisco, CA 94111

TRADEMARKS

Del Monte, Contadina, Sunfresh, Fruit Cup, Snack Cups, Fruit Naturals, Orchard Select, Fruit Pleasures, FruitRageous, Can Do, Del Monte Lite, and *Snap-E-Tom* are registered trademarks of Del Monte Corporation.

Design: Howry Design Associates, San Francisco Illustration: Shinichi Imanaka / Photonica