

CINCINNATI FINANCIAL CORP
Form 10-K
February 25, 2011

United States Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2010.

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

For the transition period from _____ to _____.

Commission file number 0-4604

Cincinnati Financial Corporation
(Exact name of registrant as specified in its charter)

Ohio
(State of incorporation)

31-0746871
(I.R.S. Employer Identification No.)

6200 S. Gilmore Road
Fairfield, Ohio 45014-5141
(Address of principal executive offices) (Zip Code)

(513) 870-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
\$2.00 par, common stock
(Title of Class)
6.125% Senior Notes due 2034
(Title of Class)
6.9% Senior Debentures due 2028
(Title of Class)
6.92% Senior Debentures due 2028
(Title of Class)

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

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

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

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

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

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

(Check one): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant was \$3,793,569,013 as of June 30, 2010.

As of February 21, 2011, there were 163,000,007 shares of common stock outstanding.

Document Incorporated by Reference

Portions of the definitive Proxy Statement for Cincinnati Financial Corporation's Annual Meeting of Shareholders to be held on April 30, 2011, are incorporated by reference into Part III of this Form 10-K.

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Part I

Item 1.

Business

Cincinnati Financial Corporation – Introduction

We are an Ohio corporation formed in 1968. Our lead subsidiary, The Cincinnati Insurance Company, was founded in 1950. Our main business is property casualty insurance marketed through independent insurance agents in 39 states. Our headquarters is in Fairfield, Ohio. At year-end 2010, we employed 4,060 associates, with 2,838 headquarters associates providing support to 1,222 field associates.

At year-end 2010, Cincinnati Financial Corporation owned 100 percent of three subsidiaries: The Cincinnati Insurance Company, CSU Producer Resources Inc., and CFC Investment Company. In addition, the parent company has an investment portfolio, owns the headquarters property and is responsible for corporate borrowings and shareholder dividends.

The Cincinnati Insurance Company owns 100 percent of our four additional insurance subsidiaries. Our standard market property casualty insurance group includes two of those subsidiaries – The Cincinnati Casualty Company and The Cincinnati Indemnity Company. This group writes a broad range of business, homeowner and auto policies. Other subsidiaries of The Cincinnati Insurance Company include The Cincinnati Life Insurance Company, which provides life insurance, disability income policies and annuities, and The Cincinnati Specialty Underwriters Insurance Company, which began offering excess and surplus lines insurance products in January 2008.

The two non-insurance subsidiaries of Cincinnati Financial Corporation are CSU Producer Resources, which offers insurance brokerage services to our independent agencies so their clients can access our excess and surplus lines insurance products; and CFC Investment Company, which offers commercial leasing and financing services to our agencies, their clients and other customers.

Our filings with the U.S. Securities and Exchange Commission (SEC) are available, free of charge, on our website, www.cinfin.com/investors, as soon as possible after they have been filed with the SEC. These filings include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. In the following pages we reference various websites. These websites, including our own, are not incorporated by reference in this Annual Report on Form 10-K.

Periodically, we refer to estimated industry data so that we can give information about our performance versus the overall insurance industry. Unless otherwise noted, the industry data is prepared by A.M. Best Co., a leading insurance industry statistical, analytical and insurer financial strength and credit rating organization. Information from A.M. Best is presented on a statutory accounting basis. When we provide our results on a comparable statutory accounting basis, we label it as such; all other company data is presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

Our Business and Our Strategy

Introduction

The Cincinnati Insurance Company was founded over 60 years ago by four independent insurance agents. They established the mission that continues to guide all of the companies in the Cincinnati Financial Corporation family – to grow profitably and enhance the ability of local independent insurance agents to deliver quality financial protection to

the people and businesses they serve by:

- providing market stability through financial strength
- producing competitive, up-to-date products and services
- developing associates committed to superior service

A select group of agencies in 39 states actively markets our property casualty insurance within their communities. Standard market commercial lines policies are marketed in all of those states, while personal lines policies are marketed in 29 of those states. Excess and surplus lines policies are available in 38 of those states. Within this select group, we also seek to become the life insurance carrier of choice and to help agents and their clients – our policyholders – by offering leasing and financing services.

Three competitive advantages distinguish our company, positioning us to build shareholder value and to be successful overall:

- Commitment to our network of professional independent insurance agencies and to their continued success
- Financial strength that lets us be a consistent market for our agents' business, supporting stability and confidence
- Operating structure that supports local decision making, showcasing our claims excellence and allowing us to balance growth with underwriting discipline

Independent Insurance Agency Marketplace

The U.S. property casualty insurance industry is a highly competitive marketplace with more than 2,000 stock and mutual companies operating independently or in groups. No single company or group dominates across all product lines and states. Standard market insurance companies (carriers) can market a broad array of products nationally or:

- choose to sell a limited product line or only one type of insurance (monoline carrier)
- target a certain segment of the market (for example, personal insurance)
- focus on one or more states or regions (regional carrier)

Standard market property casualty insurers generally offer insurance products through one or more distribution channels:

- independent agents, who represent multiple carriers
- captive agents, who represent one carrier exclusively, or
- direct marketing to consumers

For the most part, we compete with standard market insurance companies that market through independent insurance agents. Agencies marketing our commercial lines products typically represent six to 12 standard market insurance carriers for commercial lines products, including both national and regional carriers, most of which are mutual companies. Our agencies typically represent four to six standard personal lines carriers, and we also compete with carriers that market personal lines products through captive agents and direct writers. Distribution through independent insurance agents or brokers represents nearly 60 percent of overall U.S. property casualty insurance premiums and approximately 80 percent of commercial property casualty insurance premiums, according to studies by the Independent Insurance Agents and Brokers of America.

We are committed exclusively to the independent agency channel. The independent agencies that we choose to market our standard lines insurance products share our philosophies. They do business person to person; offer broad, value-added services; maintain sound balance sheets; and manage their agencies professionally. We develop our relationships with agencies that are active in their local communities, providing important knowledge of local market trends, opportunities and challenges.

In addition to providing standard market property casualty insurance products, we opened our own excess and surplus lines insurance brokerage firm so that we could offer our excess and surplus lines products exclusively to the

independent agencies who market our other property casualty insurance products. We also market life insurance products through the agencies that market our property casualty products and through other independent agencies that represent The Cincinnati Life Insurance Company without also representing our other subsidiaries. Offering insurance solutions beyond our standard market property casualty insurance products helps our agencies meet the broader needs of their clients, and also serves to increase and diversify agency revenues and profitability.

The excess and surplus lines market exists due to a regulatory distinction. Generally, excess and surplus lines insurance carriers provide insurance that is unavailable in the standard market due to market conditions or characteristics of the insured person or organization that are caused by nature, the insured's claim history or the characteristics of their business. We established an excess and surplus lines operation in response to requests to help meet the needs of agency clients when insurance is unavailable in the standard market. By providing superior service, we can help our agencies grow while also profitably growing our property casualty business. Insurers operating in the excess and surplus lines marketplace generally market business through excess and surplus lines insurance brokers, whether they are small specialty insurers or specialized divisions of larger insurance organizations.

At year-end 2010, our 1,245 property casualty agency relationships were marketing our standard market insurance products out of 1,544 reporting locations. An increasing number of agencies have multiple, separately identifiable locations, reflecting their growth and consolidation of ownership within the independent agency marketplace. The number of reporting agency locations indicates our agents' regional scope and the extent of our presence within our 39 active states. At year-end 2009, our 1,180 agency relationships had 1,463 reporting locations. At year-end 2008, our 1,133 agency relationships had 1,387 reporting locations.

We made 93, 87 and 76 new agency appointments in 2010, 2009 and 2008, respectively. Of these new appointments, 70, 65 and 52, respectively, were new relationships. The remainder included new branch offices opened by existing Cincinnati agencies and appointment of agencies that merged with a Cincinnati agency. These new appointments and other changes in agency structures or appointment status led to a net increase in agency relationships of 65, 47 and 41 and a net increase in reporting agency locations of 81, 76 and 60 in 2010, 2009 and 2008, respectively.

On average, we have a 12.4 percent share of the standard lines property casualty insurance purchased through our reporting agency locations. Our share is 17.7 percent in reporting agency locations that have represented us for more than 10 years; 6.7 percent in agencies that have represented us for six to 10 years; 4.1 percent in agencies that have represented us for one to five years; and 0.8 percent in agencies that have represented us for less than one year.

Our largest single agency relationship accounted for approximately 1.2 percent of our total property casualty earned premiums in 2010. No aggregate locations under a single ownership structure accounted for more than 2.2 percent of our earned premiums in 2010.

Financial Strength

We believe that our financial strength and strong surplus position, reflected in our insurer financial strength ratings, are clear, competitive advantages in the segments of the insurance marketplace that we serve. This strength supports the consistent, predictable performance that our policyholders, agents, associates and shareholders have always expected and received, helping us withstand significant challenges.

While the prospect exists for short-term financial performance variability due to our exposures to potential catastrophes or significant capital market losses, the rating agencies consistently have asserted that we have built appropriate financial strength and flexibility to manage that variability. We remain committed to strategies that emphasize being a consistent, stable market for our agents' business over short-term benefits that might accrue by quick, opportunistic reaction to changes in market conditions.

We use various principles and practices such as diversification and enterprise risk management to maintain strong capital. This includes maintaining a diversified investment portfolio by reviewing and applying diversification parameters and tolerances.

- Our \$8.383 billion fixed-maturity portfolio is diversified and exceeds total insurance reserves. At December 31, 2010, no corporate bond exposure accounted for more than 0.8 percent of our fixed-maturity portfolio and no municipal exposure accounted for more than 0.3 percent. The portfolio had an average rating of A2/A and its fair value exceeded total insurance reserve liability by approximately 35 percent.
- The strength of our fixed-maturity portfolio provides an opportunity to invest for potential capital appreciation by purchasing equity securities. Our \$3.041 billion equity portfolio minimizes concentrations in single stocks or industries. At December 31, 2010, no single security accounted for more than 6 percent of our portfolio of publicly traded common stocks, and no single sector accounted for more than 16 percent.

Strong liquidity increases our flexibility through all periods to maintain our cash dividend and to continue to invest in and expand our insurance operations. At December 31, 2010, we held \$1.042 billion of our cash and invested assets at the parent company level, of which \$763 million, or 73.2 percent, was invested in common stocks, and \$38 million, or 3.6 percent, was cash or cash equivalents.

We minimize reliance on debt as a source of capital, maintaining the ratio of debt-to-total-capital below 20 percent. At December 31, 2010, this ratio at 14.3 percent was well below the target limit as capital remained strong while debt

levels were unchanged from year-end 2009. Our long-term debt consists of three non-convertible, non-callable debentures, two due in 2028 and one in 2034.

At year-end 2010 and 2009, risk-based capital (RBC) for our standard and excess and surplus lines property casualty operations and life operations was very strong, far exceeding regulatory requirements.

- We ended 2010 with a 0.8-to-1 ratio of property casualty premiums to surplus, a key measure of property casualty insurance company capacity and security. A lower ratio indicates more security for policyholders and greater capacity for growth by an insurer. Our low ratio, compared with historical averages, gives us ample flexibility to diversify risk by expanding our operations into new geographies and product areas. The estimated industry average ratio was 0.7-to-1 for 2010.
- We ended 2010 with a 14.1 percent ratio of life statutory adjusted risk-based surplus to liabilities, a key measure of life insurance company capital strength. The estimated industry average ratio was 12.0 percent for 2010. A higher ratio indicates an insurer's stronger security for policyholders and capacity to support business growth.

(Dollars in millions) Information	Statutory	At December 31,	
		2010	2009
Standard market property casualty insurance subsidiary			
Statutory surplus		\$3,777	\$3,648
Risk-based capital (RBC)		3,793	3,664
Authorized control level risk-based capital		450	437
Ratio of risk-based capital to authorized control level risk-based capital		8.4	8.4
Written premium to surplus ratio		0.8	0.8
Life insurance subsidiary			
Statutory surplus		\$303	\$300
Risk-based capital (RBC)		318	316
Authorized control level risk-based capital		35	40
Ratio of risk-based capital to authorized control level risk-based capital		9.1	7.9
Total liabilities excluding separate account business		2,266	1,960
Life statutory risk-based adjusted surplus to liabilities ratio		14.1	16.3
Excess and surplus insurance subsidiary			
Statutory surplus		\$172	\$168
Risk-based capital (RBC)		172	168
Authorized control level risk-based capital		10	8
Ratio of risk-based capital to authorized control level risk-based capital		16.6	21.4
Written premium to surplus ratio		0.3	Quarter ended
		<u>March 28, 2003</u>	<u>March 29, 2002</u>
Reported net income		\$ 88.1	\$ 61.0
Stock-based employee compensation expense under fair value method		(1.5)	(0.8)
Adjusted net income		<u>\$ 86.6</u>	<u>\$ 60.2</u>
Adjusted net income per ordinary share:			
	Basic	\$ 1.54	\$ 1.11
	Diluted	\$ 1.52	\$ 1.09
Number of ordinary shares used in Computation:			
	Basic	56,215,957	54,223,085
	Diluted	56,995,384	55,392,568

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**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Unaudited**

8. Hurricane Mitch

In 1998, Fresh Del Monte's Guatemalan banana operations were damaged as a result of Hurricane Mitch. Fresh Del Monte maintained insurance for both property damage and business interruption applicable to its production facilities, including its operations in Guatemala. The policies providing the coverage for losses caused by Hurricane Mitch were subject to deductibles of \$0.1 million for property damage and business interruption. Fresh Del Monte recorded recoveries under its business interruption policy related to the damage of its operations in Guatemala caused by Hurricane Mitch of \$11.5 million during the quarter ended March 28, 2003, which has been included in Other income/(loss) in the Consolidated Statement of Income and in other current receivables in the Consolidated Balance Sheet at March 28, 2003.

9. Contingencies

Starting in December 1993, two of Fresh Del Monte's U.S. subsidiaries were named among the defendants in a number of actions in courts in Texas, Louisiana, Mississippi, Hawaii, Costa Rica and the Philippines involving allegations by numerous foreign plaintiffs that they were injured as a result of exposure to a nematocide containing the chemical dibromochloropropane (DBCP) during the period from 1965 to 1990.

In December 1998, these subsidiaries entered into a settlement in the amount of \$4.6 million (the majority of which was recovered from the insurance carriers) with counsel representing approximately 25,000 individuals. Under the terms of the settlement, approximately 22,000 of these claimants dismissed their claims with prejudice and without payment. The 2,643 claimants who alleged employment on a company-related farm in Costa Rica and the Philippines and who demonstrated some injury were offered a share of the settlement funds upon execution of a release. Over 98% of these claimants accepted the terms of the settlement.

On February 16, 1999, two of Fresh Del Monte's U.S. subsidiaries were served in the Philippines in an action entitled *Davao Banana Plantation Workers Association of Tiburcia, Inc. v. Shell Oil Co., et al.* The action is brought by the Banana Workers Association (the Association) on behalf of its 34,852 members for injuries they allege to have incurred as a result of DBCP exposure. Approximately 13,000 members of the Association claim employment on a farm that was under contract to a Fresh Del Monte subsidiary at the time of DBCP use. Fresh Del Monte's subsidiaries filed motions to dismiss and for reconsideration on jurisdictional grounds, which were denied. Accordingly, Fresh Del Monte's subsidiaries answered the complaint denying all of the plaintiff's allegations. Fresh Del Monte's subsidiaries believe that they have substantial defenses to the claims asserted by the Association. On October 3, 2002, the Philippine Court of Appeals ruled that the method of service used by the Association to serve the defendants was improper and dismissed the Association's complaint. As a result of this decision, the trial court suspended the proceedings indefinitely. The Association filed a motion for reconsideration of the dismissal of its complaint, which remains pending.

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**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Unaudited**

9. Contingencies (continued)

Fresh Del Monte's U.S. subsidiaries have not settled the DBCP claims of approximately 3,500 claimants represented by different counsel who filed actions in Mississippi in 1996 and Hawaii in 1997. Each of those actions was dismissed by a federal district court on grounds of *forum non conveniens* in favor of the courts of the plaintiffs' home countries and appealed by the plaintiffs. As a result of the dismissal of the Hawaiian actions, several Costa Rican and Guatemalan individuals have filed the same type of actions in those countries. The Guatemalan action was dismissed for plaintiff's failure to prosecute the action. On January 19, 2001, the Court of Appeals for the Fifth Circuit affirmed the dismissal of Fresh Del Monte's subsidiaries for *forum non conveniens* and lack of personal jurisdiction for the Mississippi actions, and on October 1, 2001, the United States Supreme Court denied plaintiffs' petition for an appeal. On April 22, 2003, the Hawaiian plaintiffs' appeal of the dismissal was affirmed by the Supreme Court of the United States, thereby remanding the action to the Hawaiian State court.

On October 19, 2000, the Court of Appeals for the Fifth Circuit affirmed the dismissal of 23 non-settling defendants who had filed actions in the United States District Court in Houston, Texas. As a result, the 23 plaintiffs who did not accept the settlement are precluded from filing any new DBCP actions in the United States.

On June 19, 1995, a group of several thousand plaintiffs in an action entitled *Lucas Pastor Canales Martinez, et al. v. Dow Chemical Co. et al.* sued one of Fresh Del Monte's U.S. subsidiaries along with several other defendants in the District Court for the Parish of St. Charles, Louisiana, asserting claims similar to those arising in the Texas cases due to the alleged exposure to DBCP. That action was removed to the United States District Court in New Orleans and was subsequently remanded in September 1996. Fresh Del Monte's subsidiary has answered the complaint and asserted substantial defenses. Following the decision of the United States Court of Appeals for the Fifth Circuit in the Texas actions, this action was re-removed to federal court in November 2000. Fresh Del Monte's subsidiary has settled with all but 13 of the *Canales Martinez* plaintiffs. On October 25, 2001, defendants filed a motion to dismiss the action on grounds of *forum non conveniens* in favor of plaintiffs' home countries. On July 16, 2002, the district court denied that motion and the defendants filed a motion requesting immediate review by the Court of Appeals, which was denied by the district court on August 21, 2002. On August 28, 2002, defendants filed a petition for *writ of mandamus* before the Court of Appeals with respect to the district court's denial of defendants' motion to dismiss the action on grounds of *forum non conveniens*. On November 12, 2002, the Court of Appeals denied the petition, but stated that the district court should examine further the *forum non conveniens* issues. The district court has received additional briefing on the *forum non conveniens* issues and has not issued a further ruling.

On November 15, 1999, one of Fresh Del Monte's U.S. subsidiaries was served in two actions entitled, *Godoy Rodriguez, et al. v. AMVAC Chemical Corp., et al.* and *Martinez Puerto, et al. v. AMVAC Chemical Corp., et al.*, in the 29th Judicial District Court for the Parish of St. Charles, Louisiana. These actions were removed to federal court, where they have been consolidated. These actions are brought on behalf of claimants represented by the same counsel who filed the Mississippi and Hawaii actions as well as a number of the claimants who have not accepted the settlement offer.

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**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Unaudited**

9. Contingencies (continued)

Proceedings in these actions have been suspended pending the ultimate resolution of the *forum non conveniens* issue in the *Martinez* action. At this time, it is not known how many of the 2,962 *Godoy Rodriguez* and *Martinez Puerto* plaintiffs are claiming against Fresh Del Monte's subsidiary.

On January 8, 2001, local residents of Honolulu, Hawaii amended their complaint (the initial complaint did not include Fresh Del Monte's U.S. subsidiary as a defendant) in federal court to include one of Fresh Del Monte's subsidiaries as one of several defendants for injuries allegedly caused by consuming contaminated water. Fresh Del Monte's U.S. subsidiary has answered the complaint denying all the plaintiffs' claims and asserting substantial defenses. The depositions of the initial set of 34 plaintiffs are completed, document discovery has been exchanged, and the trial is scheduled to commence on November 4, 2003.

On or about October 20, 1997, one of Fresh Del Monte's subsidiaries and Nordeste Investimentos e Participacoes S.A. (Nordeste), Fresh Del Monte's subsidiary partner in two joint venture companies, Interfruit Brasil S.A. (IBSA) and International Produce Trading Ltd. (IPTL), agreed to submit to arbitration certain disputes that arose under joint venture agreements relating to the development of and exporting of produce from a banana plantation in Brazil. In its Request for Arbitration and Reply to Nordeste's Counterclaim, Fresh Del Monte's subsidiary asserted claims for breach of contract, breach of duty of loyalty, misappropriation of trade secrets and proprietary information. Fresh Del Monte's subsidiary sought injunctive relief and \$43 million in damages. Nordeste asserted in its Counterclaim that Fresh Del Monte's subsidiary breached certain contractual obligations and improperly terminated the joint venture agreements and sought to recover liquidated and other damages in the amount of approximately \$39.2 million. The hearing of the claims before the arbitral tribunal was conducted in October 1999. On May 10, 2000, the arbitrators issued their award requiring Fresh Del Monte's subsidiary to pay \$2 million to Nordeste and that Nordeste and Fresh Del Monte's subsidiary exchange the 50% ownership they each have in the two joint venture companies (IPTL and IBSA, respectively). Fresh Del Monte accrued for the \$2 million award. The May 10, 2000 award directed Fresh Del Monte's subsidiary to transfer to Nordeste all of its shares in Bananos do Brazil Ltda (Bandebras), which held the shares of IBSA. Unbeknownst to the arbitral tribunal, during the pendency of the arbitration, Bandebras was renamed Del Monte Fresh Produce Brasil Ltda (DMFPB) and to it were transferred substantial assets and operations of Fresh Del Monte in Brazil.

On June 8, 2000 the arbitral tribunal issued an Addendum to Final Award, in which the Final Award was corrected to require Fresh Del Monte's subsidiary to transfer to Nordeste the shares of IBSA and not any other company. Fresh Del Monte's subsidiary tendered payment of the \$2 million and proposed to have a closing to affect the transfer of the shares of the two companies. Nordeste declined Fresh Del Monte's subsidiary's tender.

On July 24, 2001, DMFPB was served with a preliminary injunction issued by a judge of the Eighth Civil Court in Recife, Brazil, enjoining Fresh Del Monte's subsidiary from transferring the assets and ownership of DMFPB as well as requiring the provision of certain information to the court on a monthly basis regarding DMFPB's business pending the resolution of Nordeste's action seeking enforcement of

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**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Unaudited**

9. Contingencies (continued)

the May 10, 2000 arbitral award as originally entered, and declaring the addendum to that award a nullity. On August 6, 2001, DMFPB filed an appeal with the State of Pernambuco Appellate Tribunal seeking to revoke the preliminary injunction. The appeal contained a specific request addressed to the Reporting Judge of the Appellate Tribunal for the immediate suspension of the effects of the preliminary injunction. On August 21, 2001, the Reporting Judge denied DMFPB's specific request for an immediate suspension of the preliminary injunction. On December 21, 2001, the briefs in support of the principal appeal were filed, along with a motion to transfer venue. On October 1, 2002, the court granted DMFPB's motion to transfer venue to Fortaleza, Brazil. The three judge panel of the Appellate Tribunal has yet to rule on the merits of DMFPB's principal appeal. On January 10, 2003, the parties entered into a settlement of all disputes. Under the terms of the settlement, Fresh Del Monte's subsidiary paid \$2.3 million to Nordeste, representing the amount required by the Final Award plus interest in exchange for which Nordeste terminated all legal actions against Fresh Del Monte's subsidiaries wherever pending. The parties are awaiting court approval of the settlement and dismissal documents.

In connection with the settlement, Fresh Del Monte entered into an agreement to purchase certain agricultural assets from Nordeste and a related entity for an aggregate of \$10.7 million. Fresh Del Monte's preliminary estimate of the fair value of the assets to be purchased is \$8.5 million. The excess of the purchase price over the estimated fair value of the assets to be acquired was recorded as additional settlement expense in the year ended December 27, 2002 and is accrued in the accompanying consolidated balance sheets at March 28, 2003 and December 27, 2002.

On April 7, 2001, three of Fresh Del Monte's U.S. subsidiaries were served with a complaint filed by Maui Pineapple Company, Ltd. and Maui Land & Pineapple Company, Inc. (Maui Pineapple) in the Circuit Court of the 2nd Circuit, State of Hawaii, which was amended on May 10, 2001. The amended complaint seeks damages in excess of \$1 million for claims involving of breach of contract, breach of implied covenant of good faith and fair dealing, fraud/intentional misrepresentation, unjust enrichment, interference with a prospective business advantage, monopolistic trade practices, promissory estoppel, declaratory relief, injunctive relief, attorneys' fees, pre and post judgment interest and punitive damages.

Fresh Del Monte's U.S. subsidiaries filed motions to dismiss for lack of subject matter jurisdiction, *forum non conveniens* or, in the alternative, for a stay pending disposition of a related federal action, which were denied. Accordingly, Fresh Del Monte's U.S. subsidiaries answered the amended complaint denying Maui Pineapple's alleged claims. The parties have exchanged document discovery and several depositions have been taken. The trial is scheduled to commence in June 2003.

On April 12, 2001, Maui Pineapple filed a complaint against Fresh Del Monte and three of its U.S. subsidiaries in the United States District Court for the Northern District of California for damages and injunctive relief for trademark infringement of Maui Pineapple's Hawaiian Gold trademark, trademark dilution, Lanham Act (false advertising and false description), unfair competition, and unjust enrichment. The complaint seeks injunctive and declaratory relief, compensatory and treble damages, restitution, interest costs and attorneys' fees.

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**FRESH DEL MONTE PRODUCE INC.
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Unaudited**

9. Contingencies (continued)

Two of Fresh Del Monte's U.S. subsidiaries filed an answer and affirmative defenses, and one of Fresh Del Monte's U.S. subsidiaries filed a counterclaim for willful infringement of U.S. Patent No. 8,863. Maui Pineapple answered the counterclaim and counterclaimed for declaratory judgment seeking a declaration that the patent is invalid and not infringed. Maui Pineapple also filed counts in its counterclaim against two of Fresh Del Monte's U.S. subsidiaries for conspiracy to monopolize, attempt to monopolize, monopolization, restraint of trade under Clayton Act Sec. 3, Lanham Act unfair competition, statutory unfair competition (California Unfair Practices Act), and interference with a prospective economic advantage. Fresh Del Monte's U.S. subsidiaries answered Maui Pineapple's counterclaim, denying the alleged violations.

Fresh Del Monte and one of its U.S. subsidiaries filed a motion to dismiss for lack of personal jurisdiction. In September 2001, the Court granted the motion in part by dismissing Fresh Del Monte while denying it in part by declining to dismiss Fresh Del Monte's U.S. subsidiary, which then answered the complaint. The Court also granted Maui Pineapple's motion to bifurcate the patent counterclaim from the trademark claims. Accordingly, the trademark claims and patent claims proceeded on separate, but parallel, tracks.

In November 2002, the Court granted summary judgment in favor of Fresh Del Monte's U.S. subsidiaries on all of Maui Pineapple's claims related to the companies' use of the Del Monte Gold trademark. The remainder of Maui Pineapple's claims were confidentially settled in mediation in November 2002. The parties are in the process of preparing the appropriate settlement and dismissal documents. Fresh Del Monte accrued the appropriate amount for the settlement in its financial statements as of March 28, 2003.

The patent action is proceeding more slowly. The parties have exchanged initial sets of documents, but only a few depositions have been taken. The trial of the patent case is set to commence on October 13, 2003. Fresh Del Monte's subsidiary motion to dismiss its patent infringement claim was granted on April 4, 2003 and will move to dismiss Maui Pineapple's claims based upon the dismissal of the patent infringement claim.

On November 13, 2002, Eastbrook Caribe A.V.V., an Aruba company, which claims to be an assignee of certain individuals and entities purporting to be former indirect shareholders of Fresh Del Monte's predecessor, filed in the Supreme Court of the State of New York (Trial Court), County of New York, a summons with notice purporting to assert claims against Fresh Del Monte, a subsidiary of Fresh Del Monte and certain current and former directors, officers and shareholders of Fresh Del Monte and its predecessor (the New York Complaint). On April 16, 2003, Fresh Del Monte was served with the New York Complaint in this matter.

On December 30, 2002, Fresh Del Monte was served with a complaint filed on December 18, 2002 in the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida by 11 Mexican individuals and corporations, who claim to have been former indirect shareholders of Fresh Del Monte's predecessor, against Fresh Del Monte, and certain current and former directors, officers and shareholders of Fresh Del Monte and its predecessor (the Florida Complaint).

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**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Unaudited**

9. Contingencies (continued)

The New York Complaint and the Florida Complaint both allege that instead of proceeding with a prospective buyer who offered superior terms, the former chairman of Fresh Del Monte's predecessor and majority shareholder, agreed to sell the company's predecessor to its current majority shareholder at a below market price as the result of commercial bribes allegedly paid by Fresh Del Monte's majority shareholder and chief executive officer to Fresh Del Monte's predecessor's former chairman. On February 20, 2003, Fresh Del Monte filed a motion to dismiss the Florida Complaint which is scheduled for oral argument on May 7, 2003. Fresh Del Monte believes that the allegations of the New York Complaint and the Florida Complaint are entirely without merit.

Fresh Del Monte's subsidiaries intend to vigorously defend themselves in all of these matters. At this time, management is not able to evaluate the likelihood of a favorable or unfavorable outcome in any of the above-described matters. Accordingly, management is not able to estimate the range or amount of loss, if any, on any of the above-described matters and no accruals have been recorded as of March 28, 2003, except as previously discussed related to Nordeste and Maui Pineapple actions.

In 1980, elevated levels of certain chemicals were detected in the soil and ground water at a plantation leased by one of Fresh Del Monte's U.S. subsidiaries in Honolulu, Hawaii (Kunia Well Site). Shortly thereafter, Fresh Del Monte's subsidiary discontinued the use of the Kunia Well Site and provided an alternate water source to area well users and the subsidiary commenced its own voluntary cleanup operation. In 1993, the Environmental Protection Agency (EPA) identified the Kunia Well Site for potential listing on the National Priorities List (NPL) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended. On December 16, 1994, the EPA issued a final rule adding the Kunia Well Site to the NPL. On September 28, 1995, Fresh Del Monte's subsidiary entered into an order (the Order) with the EPA to conduct the remedial investigation and the feasibility study of the Kunia Well Site. Under the terms of the Order, Fresh Del Monte's subsidiary submitted a remedial investigation report in November 1998 and a final draft feasibility study in December 1999 (which was updated from time to time) for review by the EPA. The EPA approved the remedial investigation report in February 1999 and the feasibility study on April 22, 2003.

The estimated remediation costs associated with this matter range from \$5.4 million to \$26.1 million, based on an updated draft of the final feasibility study submitted in October 2002. Certain portions of these estimates have been discounted using a 5% interest rate.

The undiscounted estimates are between \$6.9 million and \$31.4 million. As a result of communications with the EPA during 2001, Fresh Del Monte recorded a charge of \$15.0 million in the third quarter of 2001 to increase the recorded liability to the estimated expected future cleanup cost for the Kunia Well Site of \$19.1 million.

Based on conversations with the EPA during the third quarter of 2002 and consultation with Fresh Del Monte's legal counsel and other experts, Fresh Del Monte recorded a charge of \$7.0 million during the third quarter of 2002 to increase the accrual for the expected future clean up costs for the Kunia Well

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**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Unaudited**

9. Contingencies (continued)

Site. Accordingly, an accrual of \$26.1 million is included in other noncurrent liabilities in the accompanying consolidated balance sheets at March 28, 2003 and December 27, 2002.

In August of 2002, Fresh Del Monte's subsidiary received information that additional spills of certain chemicals and DBCP may have occurred at the plantation during the 1950s and 1960s. Fresh Del Monte's subsidiary reported this information to the EPA and submitted a plan to the EPA to investigate for potential contamination. The sampling plan was performed in October 2002. The results of the sampling plan indicated that such spills that may have occurred did not cause significant contamination and should not impact the projected remedial costs for the Kunia Well Site.

In addition to the foregoing, Fresh Del Monte's subsidiaries are involved, from time to time, in various claims and legal actions incident to their operations, both as plaintiff and defendant. In the opinion of management, after consulting with legal counsel, none of these other claims are currently expected to have a material adverse effect on Fresh Del Monte's financial position or operating results.

10. Earnings Per Share

Basic and diluted per share income are calculated as follows (U.S. dollars in millions, except share and per share data):

	Quarter ended	
	March 28, 2003	March 29, 2002
Numerator:		
Income before cumulative effect of change in accounting principle	\$ 88.1	\$ 67.1
Denominator:		
Denominator for basic earnings per share - weighted average number of ordinary shares outstanding	56,215,957	54,223,085
Effect of dilutive securities:		
Employee stock options	779,427	1,169,483
	56,995,384	55,392,568
Denominator for diluted earnings per share	56,995,384	55,392,568
Income before cumulative effect of change in accounting principle per share:		
Basic	\$ 1.57	\$ 1.24
Diluted	\$ 1.55	\$ 1.21

Table of Contents**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Unaudited****11. Business Segment Data**

Fresh Del Monte is principally engaged in one major line of business, the production, distribution and marketing of bananas and other fresh produce. Fresh Del Monte's products are sold in markets throughout the world, with its major producing operations located in North, Central and South America, the Asia-Pacific region and Africa.

Through March 28, 2003, Fresh Del Monte's operations have been aggregated on the basis of its products: bananas, other fresh produce and non-produce. Other fresh produce includes pineapples, melons, tomatoes, potatoes, onions, grapes, citrus, apples, pears, peaches, plums, plantains, and fresh-cut produce. Non-produce includes a third-party ocean freight container business, a plastic product and box manufacturing business, a poultry business and a grain business.

Fresh Del Monte evaluates performance based on several factors, of which net sales and gross profit are the primary financial measures (U.S. dollars in millions):

	Quarter ended			
	March 28, 2003		March 29, 2002	
	Net sales	Gross profit	Net sales	Gross profit
Bananas	\$253.3	\$ 34.3	\$227.4	\$ 30.2
Other fresh produce	360.9	70.2	283.4	75.3
Non-produce	29.6	2.5	26.6	1.1
	—	—	—	—
Total	\$643.8	\$107.0	\$537.4	\$106.6

	March 28, 2003	December 27, 2002
Identifiable assets:		
North America	\$ 403.0	\$ 226.4
Europe	257.3	234.4
Asia-Pacific	69.0	55.3
Central and South America	467.7	475.0
Maritime equipment (including containers)	156.6	159.7
Corporate	113.4	112.0
	—	—
Total assets	\$1,467.0	\$1,262.8

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**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Unaudited**

12. Subsequent Event

At the Company's Annual Shareholders Meeting held on April 30, 2003, Fresh Del Monte's shareholders approved the regular quarterly cash dividend of \$0.10 per share as proposed by the Board of Directors on February 12, 2003. The dividend will be payable on June 4, 2003 to shareholders of record as of May 12, 2003.

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**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Unaudited

Liquidity and Capital Resources

Net cash provided by operating activities was \$45.4 million for the first three months of 2003 as compared to \$58.1 million for the first three months of 2002. The decrease in cash provided by operating activities was primarily attributed to reductions in accounts payable and accrued expenses.

Working capital was \$185.6 million at March 28, 2003 and \$103.4 million at December 27, 2002, an increase of \$82.2 million.

Net cash used in investing activities for the first three months of 2003 was \$113.4 million compared with net cash used in investing activities of \$15.6 million for the first three months of 2002. Net cash used in investing activities for the first three months of 2003 consisted primarily of capital expenditures of \$13.6 million and the acquisition of Standard Fruit and Vegetable Co., Inc. (Standard) for approximately \$99.7 million, which included four distribution facilities and increases Fresh Del Monte's presence in key markets in the United States. In addition, the acquisition allows Fresh Del Monte to increase its product offerings to include tomatoes, potatoes, onions and an extensive line of specialty items. Capital expenditures in the first quarter of 2003 were primarily for expansion of our production facilities in South and Central America and distribution and fresh-cut facilities in North America. Net cash used in investing activities for the first three months of 2002 consisted primarily of capital expenditures of \$17.4 million, primarily for expansion of our distribution and fresh-cut facilities in North America and the United Kingdom and the purchase of a pre-owned refrigerated vessel.

Net cash provided by financing activities for the first three months of 2003 was \$74.3 million compared to net cash used in financing activities of \$43.0 million for the first three months of 2002. Net cash provided by financing activities for the first three months of 2003 consisted primarily of net proceeds from long-term debt of \$77.0 million. Net cash used in financing activities for the first three months 2002 consisted primarily of net repayments of long-term debt of \$43.6 million.

On March 21, 2003, Fresh Del Monte, and certain wholly-owned subsidiaries entered into a \$400.0 million, four-year syndicated revolving credit facility (the New Credit Facility), with Rabobank Nederland, New York Branch, as administrative agent, which replaced the existing \$450.0 million revolving credit facility including the \$135.0 million five-year term loan maturing on May 10, 2005 (Term Loan). With drawdowns from the New Credit Facility, Fresh Del Monte paid off all amounts outstanding under the previous credit facility including the remaining unpaid balance of the Term Loan of \$25.0 million.

At March 28, 2003, Fresh Del Monte had \$281.5 million available under committed working capital facilities, all of which is represented by the New Credit Facility. The New Credit Facility includes a swing line facility and a letter of credit facility as was the case with the previous credit facility. At March 28, 2003, \$7.4 million of available credit was applied towards the issuance of letters of credit. The New Credit Facility is collateralized directly or indirectly by substantially all of Fresh Del Monte's assets, permits borrowings with an interest rate based on a spread over the London Interbank Offered Rate (LIBOR) and expires on March 21, 2007. Outstanding borrowings on the New Credit Facility at March 28, 2003 were \$111.1 million, bearing interest at an average rate of 2.9%.

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**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
Unaudited**

Liquidity and Capital Resources (continued)

As of March 28, 2003, Fresh Del Monte had \$166.3 million of long-term debt and capital lease obligations, including the current portion, consisting of \$111.1 million related to the New Credit Facility, \$23.5 million of long-term debt related to refrigerated vessel loans, \$7.9 million of other long-term debt and \$23.8 million of capital lease obligations.

As of March 28, 2003, Fresh Del Monte had cash and cash equivalents of \$16.1 million.

Results of Operations

First Quarter 2003 Compared with First Quarter 2002

Net Sales. Net sales for the first quarter of 2003 were \$643.8 million compared with \$537.4 million for the first quarter of 2002. The increase in net sales of \$106.4 million was attributable to increased sales of other fresh produce, primarily due to the Standard acquisition during the first quarter of 2003 and the U.K. Fresh-Cut acquisition during the second quarter of 2002, which combined contributed a total of approximately \$79 million to net sales in the first quarter of 2003. Also contributing to the increase in net sales during the first quarter of 2003 is an increase in net sales of bananas that resulted from higher sales volumes in North America and the Asia-Pacific Region and higher per unit sales prices in North America and the European Region.

Net sales were positively impacted by a weaker dollar versus the Euro and Japanese yen. The net effect of foreign exchange in the first quarter of 2003 compared with the same period of 2002 was an increase in net sales of approximately \$25.7 million.

Cost of Products Sold. Cost of products sold was \$536.8 million for the first quarter of 2003 compared with \$430.8 million for the first quarter of 2002, an increase of \$106.0 million primarily due to higher banana and other fresh produce sales volumes due to the Standard and U.K. Fresh-Cut acquisitions, combined with higher sea transportation costs as a result of increased fuel costs and higher containerboard costs.

Gross Profit. Gross profit was \$107.0 million for the first quarter of 2003 compared with \$106.6 million for the same period in 2002, an increase of \$0.4 million. As a percentage of sales, gross profit margin decreased to 16.6% in the first quarter of 2003 compared to 19.8% in the first quarter of 2002. Gross profit margin as a percent of sales decreased primarily as a result of unusually high gross profit margin in the first quarter of 2002 due to higher per unit sales prices of melons, pineapples, and non-tropical fruit combined with reduced sea transportation costs. Gross profit margin as a percent of sales for the first quarter in 2003 was more in-line with results for the fiscal year 2002 and reflects a shift in sales mix to high volume, high inventory turnover, lower risk products from the Standard acquisition. Gross margin for the first quarter of 2003 was also affected by lower per unit sales prices of melons and pineapples, higher sea transportation costs as a result of increased fuel costs and higher containerboard costs and higher operating costs as the result of stronger foreign currencies.

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**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
Unaudited**

First Quarter 2003 Compared with First Quarter 2002 (continued)

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$1.3 million from \$23.9 million in the first quarter of 2002 to \$25.2 million for the first quarter of 2003. The increase is principally due to higher administrative expenses as the result of the Standard acquisition and increased insurance costs as well as higher promotional expenses for direct marketing activities in Europe.

Asset Impairment Charges. A charge of \$4.7 million for impairment of long-lived assets was recorded during the first quarter of 2002 due to the continued operating losses of certain distribution facilities in South Africa and Argentina related to the other fresh produce segment and fair value estimates of these assets.

Operating Income. Operating income for the first quarter of 2003 was \$81.8 million compared with \$78.0 million for the same period in 2002, an increase of \$3.8 million. This increase in operating income is primarily attributable to the asset impairment charge in the first quarter of 2002.

Interest Expense. Interest expense decreased \$2.0 million to \$2.8 million for the first quarter of 2003 compared with \$4.8 million for the first quarter of 2002, as a result of lower average debt balance and lower effective interest rates.

Other Income (Loss), Net. Other income (loss), net increased by \$14.9 million from a loss of \$0.3 million for the first quarter of 2002 to income of \$14.6 million for the first quarter of 2003. The increase is due primarily to insurance recoveries of \$11.5 million recorded in the first quarter of 2003 under a business interruption insurance policy related to Hurricane Mitch in 1998, which disrupted the Guatemalan operations. The increase is also due to net foreign exchange gains for the first quarter of 2003 compared to net foreign exchange losses for the first quarter of 2002.

Provision for Income Taxes. Provision for income taxes decreased from \$6.2 million in the first quarter of 2002 to \$5.7 million in the first quarter of 2003 primarily due to a change in the source of pretax income to jurisdictions where tax rates are lower.

Seasonality

Interim results are subject to significant seasonal variations and may not be indicative of the results of operations that may be expected for the entire 2003 year.

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**FRESH DEL MONTE PRODUCE INC.
AND SUBSIDIARIES**

Disclosure Controls and Procedures

Within 90 days prior to the date of this Form 6-K, we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a or 15d. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us that is required to be included in our periodic filings with the SEC. There have been no significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect those internal controls subsequent to the date we carried out our evaluation, and there have been no corrective actions with respect to significant deficiencies or material weaknesses.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Fresh Del Monte Produce Inc.

Date: May 2, 2003

By: /s/ Hani El-Naffy

Hani El-Naffy
President & Chief Operating Officer

By: /s/ John F. Inserra

John F. Inserra
Executive Vice President & Chief Financial Officer