



MERCHANDISING AND REFINERY

Palm and Laurics

Wilmar's ability to extract value along the entire value chain from origination to destination is enhanced by its efficient logistics management and merchandising distribution network.

The Group's primary focus for its merchandising and refinery division is on tropical oil, namely palm and lauric oils. (Lauric oils comprise palm kernel oil and coconut oil, used primarily for the production of specialty fats and in the oleochemical industry to produce soaps, detergents, cosmetics, shampoo, plastics, lubricants and pharmaceutical products.)

Industry trend in 2006

Following the trend in previous years, the supply of palm oil rose again in 2006. Production by Malaysia and Indonesia, the two largest palm oil producers in the world, increased by about 2.5 million metric tonnes (MT).

Prices of palm oil went up in 2006 due to the increase in demand for edible use from China and India, and power generation from Europe. Industry projections of additional global demand of 4 to 5 million MT of biodiesel between 2007 and 2009, gave the market a strong psychological boost. As palm oil is now part of the energy complex, the persistently high mineral oil prices have put a floor price to palm oil.

Robust merchandising activities

In FY2006, the total volume of palm and laurics merchandised by the Group increased 23.3% to 8,100,100 MT from 6,570,800 MT in FY2005. The growth was in tandem with increased global demand for palm and lauric oils for food and energy.



In merchandising, Wilmar has the advantage of leveraging on its parent company's operations in China, India, Africa and Ukraine, and sales network in other markets. All decision-making on merchandising activities throughout the various regions is centralised in the merchandising department situated at the Group's headquarters in Singapore. Manned by an experienced team, the department is responsible for co-ordinating sales in various markets and developing new customers and markets.

The Group's current fleet of seven vessels with an aggregate cargo capacity of 60,640 dead weight tonnage, improves flexibility and operational efficiency, and optimises supply chain management.

Production growth through capacity expansion

Total production volume for palm and laurics amounted to 6,064,700 MT in FY2006, a 21.9% increase over 4,973,900 MT in FY2005. The growth was in line with the increase in the Group's refining capacity. In FY2006, Wilmar's palm oil mills supplied about 22% of the Group's crude palm oil requirements. The rest were sourced from third-party suppliers.

As at 31 December 2006, the Group's production facilities included the following:

- 18 refining plants in nine locations in Sumatra, Kalimantan and Butterworth, with a combined capacity of 5,339,400 MT per annum.
- 17 fractionation plants in nine locations in Sumatra, Kalimantan and Butterworth with a total capacity of 5,177,700 MT per annum.
- 17 palm kernel and copra crushing facilities in 12 locations in Sumatra, Sulawesi and Kalimantan with a total capacity of 1,894,200 MT per annum.

Included in the Group's production facilities above are new facilities commissioned in 2006, comprising:

- Three refining plants with a total capacity of 1,485,000 MT per annum.
- Three fractionation plants with a total capacity of 1,485,000 MT per annum.
- Four palm kernel crushing plants with a total capacity of 264,000 MT per annum.

Operations Review



In FY2005, Wilmar entered into a 50 : 50 joint venture with TSH Resources Bhd in its foray into Sabah, East Malaysia. The joint venture operates refining (capacity of 825,000 MT per annum), fractionation (660,000 MT per annum) and palm kernel crushing (165,000 MT per annum) plants in Kunak Jaya. Both the refinery and fractionation plants were commissioned in December 2006 while the crushing plant was commissioned in March 2007. The Sabah state is a major producer of palm oil while Kunak, with its deep seaport and proximity to China, provides logistical advantage for the shipment of refined products to China.

Improved margins from favourable market conditions and greater efficiency

Merchandising and processing margins improved to US\$12.44 per MT in FY2006 from US\$9.05 per MT the year before. Favourable market conditions, cost savings from higher production capacity and plant utilisation contributed to the firmer margins.

Refining margins are influenced by the availability of raw materials and the demand for refined products. The Group usually enjoys higher margins in the second half of the year due to seasonality factors resulting in higher supply of raw materials and higher demand for refined products for the festive seasons.

Outlook and prospects

The outlook for the palm oil industry continues to be bright. In 2006, both Indonesia and Malaysia produced about 32 million MT of palm oil, with the potential to



almost double to 60 million MT in 10 years' time. The expected rise in production is due to the rapid expansion of acreage, especially in Indonesia. As palm oil remains the cheapest high quality vegetable oil for food and energy uses, demand will continue to grow in the future.

The governments of Indonesia and Malaysia are actively promoting the bioenergy sector which should benefit the palm oil industry in the long run.

The proposed merger with the Kuok Group, which has a strong manufacturing presence in Malaysia, will result in Wilmar becoming the world's leading merchandiser and processor of palm oil with a combined refining capacity of approximately 10 million MT per annum. The multiple processing locations, enhanced market intelligence and scale of the enlarged group will provide synergies and further strengthen its ability to tap the growth opportunities in the palm oil sector.

MERCHANDISING AND REFINERY

Soya Bean and Soya Bean Meal

Wilmar also engages in the merchandising of non-palm oil related products, namely soya bean, soya bean meal, crude soya bean oil and other grains, for and on behalf of its parent company, Wilmar Holdings Pte Ltd (WHPL) and its group of companies in China. The WHPL Group owns 12 crushing facilities in China.

In FY2006, soya bean and soya bean meal merchandised on behalf of the WHPL Group amounted to 6,687,500 MT, compared to 6,663,200 MT in FY2005. Wilmar earned a fixed margin of US\$1.00 per MT in FY2006, an upward revision from the margin of US\$0.25 per MT in FY2005.

Upon completion of the acquisition of WHPL's edible oils, grains and related businesses, this segment will be reported as part of the oilseed crushing business in China.

Operations Review



PLANTATIONS AND PALM OIL MILLS

Wilmar's oil palm plantations are located in Sumatra and Kalimantan, Indonesia. Besides the fresh fruit bunches (FFB) from its own plantations, Wilmar also processes FFB from third-party suppliers, including small landholders under the Plasma Programme developed by the Group. The Plasma Programme is a government initiative whereby plantation companies such as Wilmar help the small landholders develop their plantation plots.

The crude palm oil and palm kernel produced by our mills are supplied primarily to our refineries and palm kernel crushing plants.

Landbank and new plantings

As at end-2006, Wilmar's total plantation land stood at more than 210,000 hectares of which 66,367 hectares have been planted. Of its total landbank, approximately 140,000 hectares were acquired in August and September 2006, including 12,700 hectares of planted area.

The table below shows the breakdown of planted and mature hectareage owned by Wilmar and managed under the Plasma Programme:

In hectares	Planted	Mature	Immature
Wilmar	66,367	55,318	11,049
Plasma Programme	32,132	29,983	2,149

In FY2006, Wilmar planted an area of 4,931 hectares. The Group originally set a target of 15,000 hectares per annum for new plantings, which will be revised upward to 40,000 hectares when the proposed merger with the Kuok Group's plantation business is completed. This expansion plan is mainly focused in Kalimantan where most of the new landbank is located.

Higher FFB yields

In FY2006, Wilmar's plantations produced a total of 995,194 MT of FFB, achieving a yield of 21.2 MT of FFB per hectare, an increase of 16.5% compared to 18.2 MT per hectare in FY2005. Total tonnage of FFB produced in FY2005 was 816,558 MT.

The strong improvement in FFB yield was due to factors such as favourable agricultural and climatic conditions as well as a higher proportion of planted area reaching prime yield stage. Plantations acquired in the previous year also produced better yields from increased agricultural inputs and better management control.

While the overall yield for FY2006 showed an increase, it was adversely affected in the fourth quarter due to a drought in South Sumatra affecting approximately 20% of the Group's total planted area. The impact will flow through to the first quarter of FY2007 and early FY2008.



Increased milling capacity

At the end of the financial year, Wilmar owned 20 mills in Indonesia. Total processing capacity was about 7,080,000 MT per annum compared to 5,370,000 MT per annum from 15 mills at end-FY2005. The total volume of FFB processed in 2006 was 3,977,076 MT, an increase of about 22% from 3,266,332 MT processed in 2005. The significant growth in the volume of FFB processed was largely attributable to the operation of new mills during the year.

The oil extraction rate increased slightly from 20.7% in 2005 to 20.9% in 2006, while the kernel extraction rate improved from 4.8% to 5%.

Best management practices

The Group is committed to the use of best management practices to ensure the continued success of its plantation business. Best management practices include good field and harvesting standards and timely applications of adequate fertilisers to optimise crop yields. Wilmar has over the years, built up a strong team of hands-on managers and staff who are committed to the common objective of achieving the highest standards for our plantations.

Staff morale and camaraderie are maintained within the workforce through caring for their social well-being and livelihood as well as community development projects to improve the conditions of surrounding communities. The Group also complies with government regulations and maintains cordial relationships with local government officials, studies measures for continuous improvement and keeps abreast of new developments in the industry. For more information, please refer to the Corporate Social Responsibility section.

Outlook and prospects

Wilmar is optimistic about the outlook for the palm oil industry due to the rising global demand of palm oil for food and alternative energy, and high mineral oil prices.

Upon completion of the proposed merger with the Kuok Group's palm plantation business, the enlarged plantation division will own a combined landbank of more than 570,000 hectares of which approximately 170,000 hectares are planted. The Group's objective is to plant about 40,000 hectares per annum and to achieve a total planted area in excess of 500,000 hectares within a decade.

Operations Review



BIODIESEL

Growing concerns about global warming and the impact of carbon emission on the environment have resulted in several initiatives on emission control, which will encourage the use of renewable fuels and energy. This represents tremendous opportunities for oilseed growers and processors to produce biodiesel, bioethanol and biomass from agricultural sources, including vegetable oils.

Wilmar's foray into biofuels is its recent venture into biodiesel. Biodiesel is a direct derivative of vegetable oils, resulting in a good fit for the overall business and makes vegetable oils part of the energy complex. As a result, the energy complex has begun to exert a large impact on palm's economics.

Wilmar's biodiesel manufacturing capacity comprises three biodiesel plants with a capacity of 350,000 MT per annum each. The plants are located in its integrated manufacturing complex in Pelintung, Sumatra, which has a private jetty with deep draft. The location of the plants provides easy access to abundant cheap raw materials while the integrated model will result in low manufacturing and logistics cost, enabling Wilmar to be a very efficient low-cost manufacturer of biodiesel.

Wilmar's biodiesel production process is based on the proven technology for biodiesel production of its substantial shareholder and strategic partner, Archer Daniels Midland Company (ADM), the world leader in renewable transport fuels.

The Group's first biodiesel plant was successfully commissioned in January 2007. Progress on the other two plants is on schedule, with commissioning expected in the second and third quarters of 2007. The bulk of Wilmar's biodiesel capacity in FY2007 has been pre-sold to buyers in Europe and the USA.



OTHERS

This division comprises primarily the manufacture and sale of fertilisers, which is complementary to the Group's business. Wilmar's customers for its fertiliser business are the suppliers of the Group's crude palm oil and palm kernel requirements, enabling Wilmar to tap on this captive market and minimise credit risk.

Wilmar produces NPK compound fertilisers and is also engaged in the trading of straight fertilisers such as potash and rock phosphate. NPK compound fertiliser comprises three primary nutrients – nitrogen (N), phosphorus (P) and potassium (K).

In FY2006, sales of NPK compound and straight fertilisers totaled 871,224 MT, higher than the 851,560 MT sold in FY2005. The growth was mainly from NPK compound fertilisers which recorded a sales volume of 150,740 MT in FY2006, compared to 104,797 MT a year ago. Increased customer awareness through educational seminars conducted by Wilmar for planters on the benefits of NPK compound fertiliser and application techniques, contributed to the growth in sales volume.

Profit margins were lower in FY2006 as transportation costs rose due to higher fuel costs. The Group was unable to fully pass on the additional transportation costs as most of its sales had been contracted for three to six months forward. As fuel costs stabilise, margins are expected to improve.

Overall demand for fertilisers in Indonesia is expected to increase further due to the expansion in oil palm plantation acreage and the positive outlook on palm oil prices. Demand of NPK compound fertilisers is expected to grow even faster as more plantations become aware of the benefits of using compound fertilisers. With its first plant running at full capacity, Wilmar has recently commissioned its second NPK compound fertiliser plant, increasing its capacity from 118,800 MT per annum to 448,800 MT per annum.

Operations Review



RESEARCH AND DEVELOPMENT

The Group's research and development (R&D) activities are focused on improving the quality and range of its products, meeting customers' requirements and improving operational efficiency. The R&D activities undertaken are as follows:

Specialty fats

Specialty fats products include cocoa butter equivalents (CBE), cocoa butter replacers (CBR), cocoa butter substitutes (CBS), specially formulated filling fats, creaming fats, ice-cream fats, milk fat replacers, margarines, shortenings, frying fats and many tailor-made fats to suit customers' requirements. Relative to Wilmar's group revenue, these products are of low volume, high margin and high value-add. The Group recognises the potential and long-term benefits of having a competitive edge in specialty fats and devotes a lot of R&D efforts into this area.

With the negative news surrounding trans fat and its link to cardiovascular disease, the Group focuses on developing trans fat-free or low trans fat baking and frying shortenings, as well as other forms of cooking fats such as creaming fats, filling fats and coating fats to offer healthier options to consumers.

New variations of specialty fats products are constantly being developed to offer the best possible solutions to customers. In addition, continuous evaluation is done on various specialty fats products to determine and improve on their quality, for example:

- Frying fats are evaluated on its shelf life, shelf life of fried food, greasiness and crispiness of fried food as well as foaming effect of the fat;
- Baking fats are evaluated on texture, volume, structure and taste;
- CBS, CBE and CBR are evaluated on taste, shrinkage, demoulding and effects of using different percentages; and
- Ice-cream fats are evaluated on creaminess, meltdown, taste and volume.

Refining and fractionation

Studies are done on the fractionation process to raise yield, shorten the process time and to achieve special characteristics (for the production of specialty fats ingredients). Research is also done on cost-saving techniques in the refining process through the efficient use of support materials.



Plantations

The Group's R&D activities in relation to its plantations are centred on improving seed variety for higher yield. Progeny studies are also being conducted to further identify parental palms with good combining ability. Currently, the superior seeds are produced for the Group's own use.

Other trials being conducted include:

- Evaluation of the effects of different fertiliser regime on the development of immature palms to determine the optimal application rates;
- Use of organic acids and different fertiliser regime on mature palms to improve fertiliser efficiency for optimal palm yield;
- Study on the effects of drip irrigation on the performance of mature palms in the dry region of South Sumatra. This involves a system of irrigation whereby the water is dripped from the irrigation tube;
- Trunk injection with various insecticides for the control of leaf-eating caterpillars; and
- Tests on cultural and biological methods for the control of oryctes beetle.

In addition, the Group collaborates with other agencies, such as the Potash and Phosphate Institute (South East Asian Programme), on best management practices to achieve maximum economic yield.

Biodiesel

Wilmar's biodiesel R&D effort involves developing competitive low pour point biodiesel using different processes, additives and alternative feedstock. There is also on-going development of value-added products using glycerin, a by-product of biodiesel production. Wilmar is also working on other biofuels and alternate biomass.

Fertiliser

The R&D activities undertaken are:

- Effect of NPK compound fertiliser on the growth and yield of food crops (rice and maize) and horticulture products (citrus, etc).
- Evaluation on the impact of Wilmar's own brand of NPK compound fertiliser, on yield compared to the usage of traditional straight fertilisers. The yield component includes production of fresh fruit bunches and oil extraction rate. Early results have shown that by using Wilmar's NPK compound, the growth and yield of palms are significantly improved and are better than using straight fertilisers.

Operations Review



AWARDS

Over its years in operation, Wilmar consistently sets high standards and strives for improvement in every area of its business. As a result, it has received numerous awards, certifications and commendations from various organisations. Some recent awards received are:

Plantations

- Green Gold Label Certificate from Control Union Certifications (The Netherlands) – awarded to Wilmar for Chain of Custody and Processing Standards in January 2007. The certification indicates that the crude palm oil from Wilmar’s plantations and used by its refineries in producing refined products, are sustainably produced and traceable for the entire production process and chain.
- ISO 9001 : 2000 and ISO 14001 : 2004 – awarded to Wilmar’s plantation company, PT Asiatic Persada Group by SGS Systems and Services Certification Pty Ltd (Australia).
- Zero Accident Award from the Ministry of Labour and Transmigration of Indonesia – awarded to three of Wilmar’s plantation companies in South Sumatra

(PT Tania Selatan, PT Buluh Cawang Plantations and PT Musi Banyuasin Indah). This award is a commendation on the plantation companies’ safety and health programmes which resulted in zero accidents for the period 1 January 2005 to 30 November 2006.

Merchandising and refinery

- Primaniyarta Export Award 2006 from the Indonesian Government for Best Performing Exporter in the category of Foreign Capital Investment Company, product from natural resources – awarded to Wilmar’s subsidiary, PT Multimas Nabati Asahan.

Others

- Wilmar’s house brand, Sania cooking oil, was ranked No. 3 in July 2006 in the Indonesian Best Brand Survey 2006. The survey criteria included brand awareness, customer satisfaction and loyalty, and market share, among others.



Primaniyarta Export Award 2006

WILMAR'S OPERATIONS

- Plantation
- Palm Oil Mill
- Refinery & Palm Kernel Crushing
- Copra Crushing
- Specialty Fats
- Fertiliser Manufacturing
- Biodiesel

