

Risk Management



OVERVIEW

The management of risk is key to the Group's financial soundness and integrity, and risk evaluation forms an integral part of its business strategy development.

Risks must be identified, measured, monitored and managed within a robust framework, and returns must commensurate with the risks taken. Wilmar has an experienced risk management team which identifies, measures, manages and controls risks, including exposures to prices of commodities, foreign currency exchange rates, interest rates and credit.

MARKET AND CREDIT RISKS

As a result of its global operating and financing activities, the Group is exposed to various types of market and credit risks, including changes in commodity prices, foreign currency exchange rates and interest rates.

COMMODITY PRICE RISK

The prices of agricultural commodities are determined by factors such as weather, government policies, global demographic changes and competition from substitution products.

When sourcing raw materials and selling the manufactured outputs, the Group is exposed to price fluctuations in the commodities markets because the sale and purchase commitments do not normally match at the end of each business day. Wilmar generally uses forward physical and/or exchange traded commodity futures contracts to manage such risks.

FOREIGN EXCHANGE RISK

Foreign exchange risk refers to the exposure arising from movements in foreign currency exchange rates.

The majority of Wilmar's products are exported and quoted in USD, while local sales and costs of operation, purchases of raw materials in Indonesia and Malaysia are mainly denominated in the local currency.

Fluctuation in currency exchange rates will result in foreign currency exchange gains or losses arising from translations of foreign currency monetary assets and liabilities to USD as at the balance sheet dates.

The Group manages its foreign currency exposures by constructing natural hedges when it matches sales and purchases in any single currency or through financial instruments, such as foreign currency forward exchange contracts. The primary purpose of the foreign currency forward exchange contract is to protect against the volatility associated with foreign currency purchases and sales of raw materials and other assets and liabilities created in the normal course of business.

INTEREST RATE RISK

Interest rate risk refers to the exposure on interest rate fluctuation on the Group's working capital financing. Its interest expense may vary depending on the stock holding period assumed at the time of entering into the transaction versus the actual time taken to deliver the physical product and realise the proceeds of sale from the end-customer. The Group uses mainly short-term banking facilities to fund its operations and most of its borrowings are transaction-related.

Consequently, interest expense is dependent on the volume of transactions and the stock holding period, and it is subsequently priced into the products. As such, short-term interest rate movements have minimal impact on the net contribution margin.

For long-term borrowings, Wilmar usually enters into interest rates swap contracts to manage our interest rate risk.

CREDIT RISK

The majority of the Group's sales are export sales, for which it typically requires letters of credit from its customers or cash against the presentation of documents of title. For domestic sales, which are not significant, the Group may grant its customers credit terms from the date of issuance of invoice.

Wilmar evaluates new customers' credit worthiness by considering their financial standing and operating track record, as well as conduct background checks through its industrial contacts. Based on the information obtained, Wilmar will decide on the actual credit terms and limits to be granted. As a practice, it will usually require a letter of credit for sales to new customers.

For existing customers, the Group will review periodically the credit terms granted. It will consider a customer's current financial strength, payment history, transaction volume and duration of its business relationship with the Group. It also monitors the outstanding trade debts to ensure that corrective steps are taken to collect these outstanding debts.

RISK GOVERNANCE

Wilmar's risk governance structure comprises three levels, namely:

- Risk Management Committee at the Board level;
- Executive Risk Committee; and
- Risk management by the head of the merchandising team.

The Board-level Risk Management Committee, chaired by an independent director, oversees the Executive Risk Committee, reviews the overall risk management guidelines/framework, reviews and recommends risk limits, as well as assesses the adequacy and effectiveness of the risk management policies and systems.

The Executive Risk Committee comprises executive directors. Its responsibilities include, amongst others, the monitoring and improvement of the overall effectiveness of its risk management system, the review of trade positions and limits to manage its overall risk exposure.

The Head of Merchandising is responsible for monitoring the merchandising team, as well as adherence with the trading policies and limits set by the Risk Management Committee and the Board.

To ensure proper segregation of authority and responsibility to achieve effective governance and oversight, the Group has a Middle Office independent of the Front and Back Office. The Middle Office is responsible for the capture and measurement of Group-wide risks, as well as for monitoring limit breaches. The Middle Office circulates a daily risk exposure report, which is reviewed by the Executive Risk Committee for any significant risk issues. The Middle Office also sends out regular risk alerts to the merchandising team, Executive Risk Committee and/or the Risk Management Committee when risk exposure is seen to be reaching trigger levels.



The documented risk management policy clearly defines the procedures for monitoring, controlling and reporting risk in a timely and accurate manner. Wilmar has also put in place overall risk tolerance threshold recommended by the Risk Management Committee and approved by the Board.

The risk tolerance threshold refers to the maximum potential loss if all unsecured trading and operations across all products and geographical regions materialise at the same time. The risk tolerance threshold is based on a percentage of total shareholders' funds, and/or the budgeted annual operating profit, after taking into account, inter alia, the Board's view on the overall production capacity of refining and processing operations, the prices (and price trend) of raw materials, its overall view of the market upon which trading activities take place, the track record of management in managing its risk exposures in the prior period, and the financial budgets including projected sales volumes and turnover.

RISK MANAGEMENT REVIEW

To further improve the Group's risk management process, an independent consultant, Deloitte & Touche Enterprise Risk Services Pte Ltd, was engaged to review the risk management framework of the Group's palm oil-related trading activities to identify gaps and recommend appropriate improvements.

Recommendations were made by the consultant to strengthen the risk management process, including improvements on certain documentation, such as formalising certain reports, reporting structure and policies. Wilmar has implemented these recommendations where necessary.