

Risk Management



Overview

Risk management forms an integral part of Wilmar's business strategy development. The scope and depth of the Group's agribusiness activities starts from the origination of raw materials to processing and manufacturing of consumer-ready products for the end customer. This exposes the Group to different types of market, operational and credit risks at each stage of the value chain, including changes in commodity prices, foreign currency exchange rates and interest rates.

To ensure a sound system of internal control, the Board has established a risk management framework for Wilmar and its subsidiaries. These procedures are intended to provide an ongoing process to identify, quantify, monitor and control risks faced by the Group. The day-to-day management of these procedures is monitored by an experienced risk management team to reduce the risk exposure of the Group.

This risk management process is subject to regular review to match changing business conditions. Improvements that are identified are adopted and implemented where appropriate and necessary.

Commodity Price Risk

Commodity price risk is determined from short-term factors such as weather and competition from substitution products or from longer term factors such as government policies or global demographic changes. Commodity prices can and do fluctuate based on these combined factors.

The Group is exposed to commodity price fluctuations because sale and purchase commitments do not normally match at the end of each business day. To manage such risks, Wilmar generally uses forward physical and/or derivative contracts.

Foreign Exchange Risk

Foreign exchange risk refers to the exposure arising from movements in foreign currency exchange rates, especially when conducting business in multiple currencies.

The majority of Wilmar's exported products are quoted in US dollars (USD), while local sales, purchases and costs of operations are mainly denominated in the local currency.

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.

However the Group may still be exposed to foreign exchange risk to the extent that the natural hedges and/or financial instruments do not completely cover the Group's exposure in any particular foreign currency, or where the Group has managed its open position in any currency.

Interest Rate Risk

Interest rate risk refers to the exposure on interest rate fluctuation on the Group's working capital financing. Wilmar's 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 realize 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.

Accordingly, 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 may enter into interest rates swap contracts to manage its interest rate risk.

Risk Management

Credit Risk

The majority of the Group's export sales require letters of credit from its customers or cash against the presentation of documents of title. For domestic sales, the Group conducts business on cash terms or may grant its customers credit terms, where appropriate.

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

For existing customers, the Group will periodically review 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:

- The Risk Management Committee at the Board level;
- The Executive Risk Committee; and
- Risk management by the respective heads of the merchandising team for palm and laurics, and oilseeds and grains.

The Board-level Risk Management Committee is chaired by the Lead Independent Director and is charged with:

- Overseeing the Executive Risk Committee;
- Reviewing the overall risk management guidelines/framework;
- Reviewing and recommending risk limits; and
- Assessing the adequacy and effectiveness of the risk management policies and systems.

The risk management framework that is designed to safeguard shareholders' investment and the Group's assets, by its nature can only manage rather than eliminate the risk of failure to achieve business objectives. Inherently, the framework can only provide reasonable and not absolute assurance against material misstatement or loss.

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 overall risk exposure.

The respective heads of the merchandising teams for palm and laurics, and oilseeds and grains are responsible for monitoring the merchandising of palm and laurics or oilseeds and grains, as appropriate, 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 monitoring for 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 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. The Company has also implemented 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 materialize at the same time. The risk tolerance threshold is based on a percentage of 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

In 2006, the Group had engaged an independent consultant, Deloitte & Touche Enterprise Risk Services Pte Ltd to undertake a risk management review. Recommendations made by the consultant to strengthen the risk management process were implemented where necessary.

Subsequently, the Group engaged Deloitte & Touche Enterprise Risk Services Pte Ltd to conduct a separate risk management review in 2007 to review the edible oils (in particular, soybean) business within the enlarged group to identify any gaps within the underlying hedging and risk management processes, and to recommend steps to enhance them.

