

OPERATIONS REVIEW

Merchandising & Processing - Palm & Laurics

Wilmar is the largest global processor and merchandiser of palm and lauric oils, with a distribution network spanning more than 50 countries. Our products include RBD (refined, bleached and deodorised) palm oil, RBD palm olein, RBD palm stearin, RBD palm kernel oil, RBD palm kernel olein, RBD palm kernel stearin, crude palm oil (CPO), specialty fats, oleochemicals and biodiesel.

The Group owns processing plants in major palm producing countries like Indonesia and Malaysia as well as in consuming countries such as China, The

Netherlands, Germany and Vietnam. Through joint ventures, Wilmar also owns processing plants in consuming countries like India, Russia, Ukraine, Uganda and Ivory Coast.

Industry trend in 2008

The year in review saw continued growth in palm oil production - Indonesia and Malaysia grew by about 12% to almost 38 million metric tonnes (MT) while global production was up by more than 11% to just under 44 million MT. Despite a volatile and challenging market



environment in the second half of 2008 (2H2008), palm oil consumption registered a healthy growth of around 12% to over 42 million MT in 2008, spurred by demands in the food and energy sectors. Key growth markets were China, India, the Middle East, Europe and the USA.

In the first half of 2008 (1H2008), demand was also supported by poor weather conditions which affected the supply of substitute crops. On the back of increased consumption and record high prices of crude oil and soft oils, the price of CPO hit a record high in March 2008. The initial reaction of buyers was to build up inventory on concerns of further price increases. As prices stayed high during the period, demand rationing set in towards the later part of 1H2008.

Prices dropped in 2H2008 due to the sharp fall in prices of crude oil and the global financial crisis. The operating environment turned challenging as buyers defaulted and the global financial turmoil resulted in tight credit availability.

Robust merchandising activities

During the year, the Group merchandised 19.4 million MT of palm and laurics, a 38.9% growth over 2007. The robust performance was attributed to the full year contribution of the merger with Kuok Group and market share gains. We expanded our downstream distribution and rationalised our marketing strategy with joint venture partners to better capture demand in the destination markets.

The challenging environment in 2H2008 did not cause much disruption to our operations. The Group continued to enjoy the support of our loyal customers and bankers.

Significant improvement in margins

The Group's pretax margins improved significantly to US\$33.19 per MT in 2008 from US\$18.47 per MT a year ago, resulting from an overall expansion in industry margins, timely purchases of raw materials and sales of products, prudent customer credit assessment and rigorous risk management. Higher production and greater efficiency in logistics planning also contributed to the improved margins.

Outlook and strategy

The Group's integrated business model, sizeable distribution network and strong balance sheet, coupled with the relative resilience in demand for staple food commodities will place us in a strong position to weather economic uncertainties in 2009.

We are positive about palm oil's longer term prospects due to the rising global demand for its food and non-food uses, backed by its versatility, price competitiveness and supply growth. In Indonesia and Malaysia, production is expected to grow by another 2 million MT in 2009, and to reach over 60 million MT within 10 years due mainly to the rapid acreage expansion in Indonesia. The Group's long term strategy is to grow our refining capacity in line with supply growth, to enhance our presence in key destination markets and to expand our capacities in the downstream processing of specialty fats, oleochemicals and biodiesel.

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Merchandising & Processing - Oilseeds & Grains

Wilmar is a leading oilseeds crusher in China, where we process oilseeds like soybean, rapeseed, groundnut, cottonseed, sunflower seed and sesame seed into protein meal and edible oils. Protein meal is used primarily by feed millers to produce animal feed for hog, poultry and aquaculture industries. The edible oils produced are sold to our consumer products division as well as to third parties.

We also engage in the milling of wheat into wheat flour and wheat bran, as well as the milling of paddy into rice, rice bran and rice bran oil.

Industry trend in 2008

In 2008, total soybeans crushed in China was almost 40 million MT, representing a growth of about 10% while total major oilseeds crushed grew in the region of 5% to approximately 69 million MT. The growth in crush volume was achieved through a general increase in consumption in line with China's strong GDP performance. China's soybean meal consumption grew by 12% to just about 31 million MT in 2008 while total major protein meals consumption was up nearly 8% to over 47 million MT. The consumption of soybean oil increased almost 12% to about 10 million MT the same year.



In 1H2008, global prices of meal and oil surged in response to rising crude oil prices, strong demand for biodiesel and ethanol, as well as the farmers' strike in Argentina. The large inflow of funds into agricultural commodities futures and a weak US\$ contributed further to the price increase.

2H2008 saw prices dropping, triggered by falling crude oil prices. The drop intensified following the massive financial meltdown, fears of a global recession, redemption in agricultural commodities funds and a strengthened US\$. During this period, demand for meal in China remained fairly resilient due to its strong economic growth.

Strong volume growth

The Group merchandised a total of 13.3 million MT of oilseeds and grains products in 2008, a 22.7% growth over 2007. Despite the challenges in 2H2008, our operations were relatively unaffected given our financial strength and established risk management strategies.

Surge in margins

Pretax margins improved sharply to US\$44.43 per MT in 2008 from US\$17.06 per MT last year on the back of a general improvement in industry margins, and timely purchases of raw materials and sales of products.

Outlook and strategy

Despite the global recession, we believe that China's economy will continue to grow in 2009 and demand for staple food commodities will remain relatively resilient. In the longer term, with increasing affluence, consumers will demand better quality products. To meet this demand, the Group will continue to invest in research and development to produce better quality products. We will also persist with efforts to improve our cost structure in order to be the lowest cost producer of the highest quality products.

Despite the low margins from flour and rice milling, we will continue to invest in these businesses as they are complementary to the Group's existing operations.

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Consumer Products

Together with our joint ventures, Wilmar produces consumer pack edible oils and markets them under our own brands in China, India, Indonesia, Vietnam and Bangladesh. We have a significant market share in each of these countries, making us the world's largest producer of consumer pack edible oils.

Consumer Products Industry Trend in 2008 – China

During the year, China's demand for consumer pack oils maintained its growth momentum given the country's

strong economic performance and consumers' continued switch from loose to packed oil, especially in the second and third tier cities.

To manage inflation, the Chinese Government implemented temporary price intervention measures in January 2008, requiring approval for upward price adjustments of selected consumer food products including cooking oil. The measures were subsequently lifted in December 2008 when inflation was no longer a concern following the sharp drop in prices of commodities.



Volume increase contributed by merger

Combined sales from the Group's subsidiaries in China, Indonesia, Vietnam and Bangladesh reached over 3 million MT in 2008, an increase of 71.8% over 2007. We benefited from the full year contribution of the merger with Kuok Group compared to six months in 2007. Sales was also boosted by our marketing expertise, effective branding strategies, efficient cost structure arising from our integrated operations and purchasing strength.

Margins affected by price intervention

The Group's pretax margins deteriorated from US\$59.09 per MT in 2007 to US\$24.64 per MT in 2008. In China, margins were adversely affected by the Government's price intervention measures. Although approval was obtained for a 10% price increase in April 2008, we did not institute an increase as prices of edible oils feedstock had started softening by then.

The continued drop in feedstock prices resulted in improved margins in 2H2008 over 1H2008, despite downward adjustments to selling prices in August and October 2008.

Outlook and strategy

We are optimistic about the longer term prospects for consumer products due to economic growth, low per capita consumption and the switch from loose oil to packed oil in our key markets. We expect continued growth supported by our efficient manufacturing operations, strong brand portfolio, dynamic product development and marketing strategies, coupled with our expanding distribution network.

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Plantations & Palm Oil Mills

Wilmar is a major oil palm plantation owner with plantations in both Indonesia – Sumatra and Kalimantan, and Malaysia – Sabah and Sarawak. Besides fresh fruit bunches (FFB) from our own plantations, the Group 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 in Indonesia whereby plantation companies such as Wilmar, help to develop plantation plots for the small landholders.

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

The Group also owns a 30% stake in a plantation in Uganda and has ventured into West Africa through a joint venture with Olam International Limited and SIFCA Group of Africa.

Planted area and age profile

As at 31 December 2008, our planted area was 223,258 hectares, comprising 160,805 hectares in Indonesia and 62,453 hectares in Malaysia. In Indonesia, we managed 33,867 hectares under the Plasma Programme.



Plantation Age Profile as at 31 December 2008

(in hectares)	Average age of palm					Total
	Up to 3 yrs	4-6 yrs	7-14yrs	15-18 yrs	>18yrs	
Own landbank	80,290	30,532	64,368	34,362	13,706	223,258
<i>Indonesia</i>	<i>75,911</i>	<i>21,356</i>	<i>38,183</i>	<i>15,980</i>	<i>9,375</i>	<i>160,805</i>
<i>Malaysia</i>	<i>4,379</i>	<i>9,176</i>	<i>26,185</i>	<i>18,382</i>	<i>4,331</i>	<i>62,453</i>

Additionally, the Group's planted area was more than 4,000 hectares in Uganda and approximately 36,000 hectares in West Africa as at 31 December 2008. We also managed about 120,000 hectares under a smallholders scheme in West Africa.

Higher FFB production

The Group's FFB production jumped 30.6% to about 3.0 million MT in 2008 from 2.3 million MT in 2007, due largely to the full year contribution of the merger with Kuok Group. The jump was also attributable to the increase in mature hectareage to 141,407 hectares from 129,729 hectares a year ago.

However, FFB production yield dropped to 20.93 MT per hectare from 22.82 MT per hectare in the previous year. This was due to the after-effects of the long drought in Palembang in 2H2006 as well as prolonged wet weather in Sabah which lasted about three months in early 2008. The newly matured hectareage with its lower yield, has also resulted in some dilutive effect on total yield.

During the year, the Group processed 7.2 million MT of FFB, of which 41.2% was supplied by our own plantations. Our oil extraction and palm kernel extraction rates remained relatively stable at 21.0% and 4.9% respectively. Total CPO production was 1.5 million MT or 19.0% of the CPO processed by the Group's refineries.

Sustainability and certification

Wilmar strongly supports sustainable palm oil production and is fully committed to the Principles & Criteria of the Roundtable on Sustainable Palm Oil (RSPO).

RSPO certification work is in progress and we target to have our operations fully certified. Our subsidiary, PPB Oil Palms Bhd, was one of the first in the industry to be awarded the Certification for Sustainable Palm Oil by the RSPO, for meeting the RSPO Principles & Criteria in three of our mills. These mills collectively produce approximately 123,000 MT of sustainable CPO annually from their supply base of four plantations, spread over more than 19,400 hectares in Sabah, East Malaysia.

For more information on sustainability, please refer to the Corporate Social Responsibility section.

Outlook and strategy

Although CPO prices have fallen substantially from record highs achieved in early 2008, Wilmar remains positive about the prospects of palm oil in the longer term due to the rising global demand for its food and non-food uses and competitive pricing. We will continue to increase our planted hectareage through acquisitions and new plantings.

We are also optimistic about Africa because of its availability of land and labour, suitable climatic conditions and oil deficit status. We will continue to seek opportunities to expand our hectareage there.

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Others

Wilmar is also engaged in the manufacture and distribution of fertilisers, and the shipping of bulk oil, both of which complement the Group's core business.

Fertiliser

The fertiliser business leverages on the Group's network of raw materials suppliers. Customers are primarily our FFB, CPO and palm kernel suppliers, as well as our own plantations. As a result, we are able to benefit from a captive market with minimal credit risk.

The Group produces NPK compound fertilisers, which comprises three primary nutrients – nitrogen (N), phosphorus (P) and potassium (K). We are also engaged in the trading of straight fertilisers such as potash, rock phosphate, urea, ammonium sulphate and kieserite.

Prices of fertilisers continued to rise sharply in 1H2008 in response to soaring agricultural commodities prices. In 2H2008, falling agricultural commodities prices initially did not affect the steady increase in fertiliser prices until October 2008, when weakened demand led to its eventual decline. With the exception of potash, fertiliser prices fell to levels seen two to three years ago.



Sales volume of both NPK and straight fertilisers was 6.1% lower at 1.0 million MT in 2008. While the Group benefited from the favourable operating environment in 1H2008, the deteriorating market in 2H2008 took its toll on our volume and margins.

In the near term, fertiliser trading prospects are expected to remain soft in line with the low prices of agricultural commodities. Longer term prospects remain favourable from the continued expansion of oil palm plantations in Indonesia.

Shipping

As part of our integrated business model, we own a fleet of liquid bulk vessels which caters primarily to in-house needs. Our fleet improves flexibility and operational efficiency in the merchandising of palm and laurics, and meets approximately 30% of the Group's liquid bulk shipping needs.

Towards the end of 2008, the Group acquired a 60% stake in Raffles Shipping Corporation Pte Ltd (RSC). RSC, one of the largest ship chartering agents in Singapore, has been managing Wilmar's vessels prior to the acquisition. With this acquisition, the experienced team at RSC will be able to manage our shipping operations more efficiently and benefit from the Group's strength to grow its third-party business.

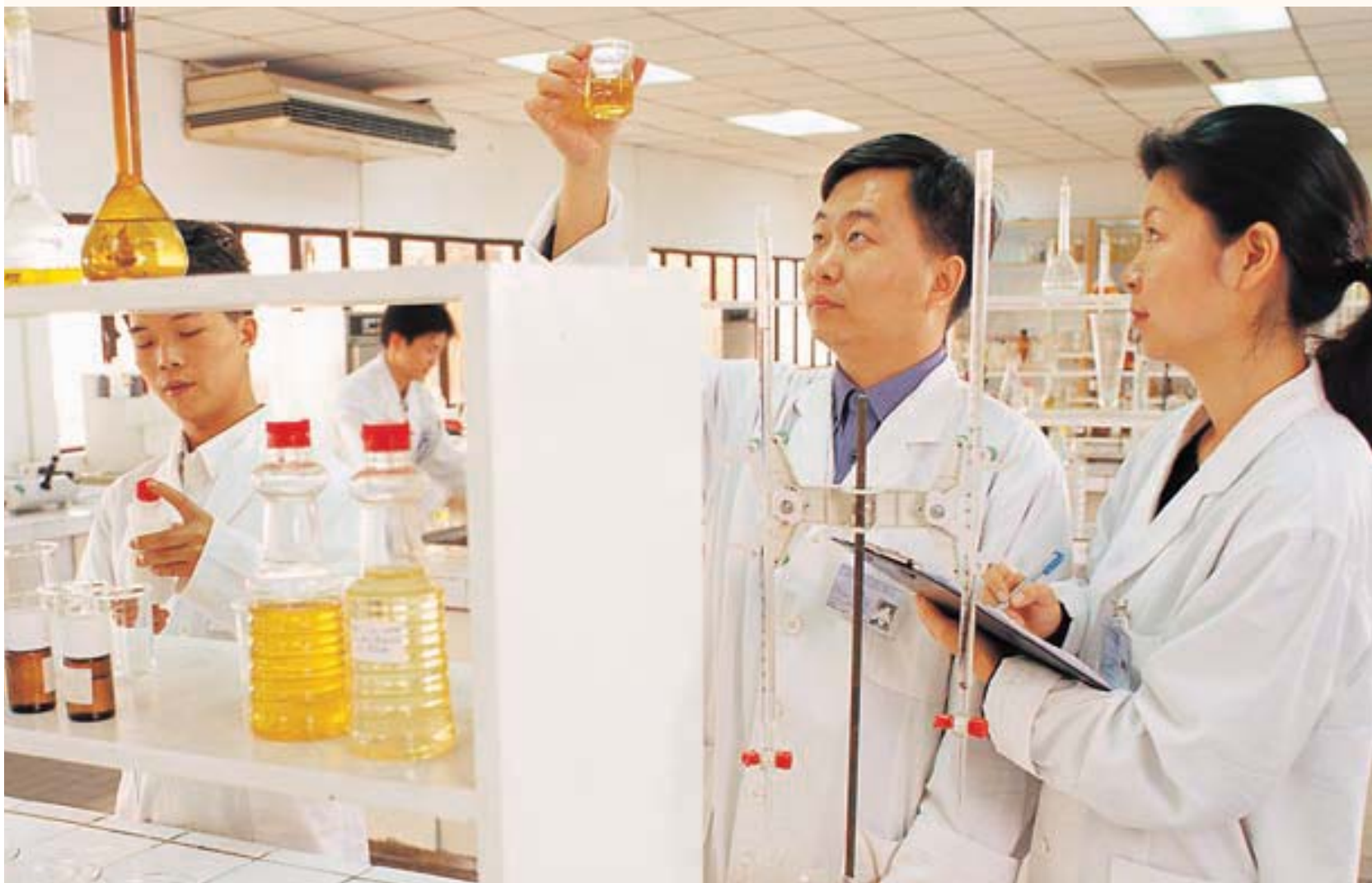
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Research & Development

Wilmar engages in research and development (R&D) to improve quality and product range, to create new applications, to enhance process efficiency and to raise productivity.

The R&D activities undertaken are:

- **Refining and fractionation** - improve palm oil's health quality and overall process efficiency, including reduction of processing material while maintaining product quality.
- **Specialty fats** - increase the range of products and applications, and enhance the Group's process efficiency and product quality through the use of different technologies.
- **Oleochemicals** - research the use of various feedstock including by-products and wastes generated from the Group's edible oils production, develop new applications for our products and explore the potential of basic oleochemicals downstream processing to meet customers' increasing and changing demands.
- **Biodiesel** - use of different feedstock for production and process development and innovations to meet new specifications.



- **Oilseeds crushing** - develop new soy protein products.
- **Rice milling** - develop new applications for by-products like rice bran and rice fibre, and improve rice bran oil refining process.
- **Seed development** - improve the variety and quality of seeds through plant breeding research to meet our processing and consumers' needs.
- **Consumer products** - develop new products and improve on processing methods to produce healthier oils.
- **Plantations** - improve yield and oil extraction rate through the development of quality seeds and planting materials, and conduct experiments on tissue culture techniques for clonal palms production. We continue to evaluate different fertiliser regimes to determine optimal application rates and investigate the effect of irrigation in the dry region of South Sumatra.
- **Fertiliser** - establish positive effects from the usage of NPK on FFB yield and oil extraction rate compared to straight fertilisers, and define the optimal dosage of NPK for various soil types.



AWARDS

Company level

- Singapore International 100 Ranking 2008 by International Enterprise Singapore - ranked 1st for highest overseas revenue; 1st for revenue by market for China, India, the Middle East and North Asia; and top 10 for revenue by market for Africa, the Americas, Europe and South East Asia.
- Securities Investors Association (Singapore) Investors' Choice Awards 2008 - Winner, Most Transparent Company in the category of Services/Utilities/Agriculture.
- Business Times Singapore Corporate Awards 2008 - Bronze for Best Annual Report in the category of newly listed company.
- 2008 Frost & Sullivan Asia Pacific Industrial Technologies Award for Growth Excellence - Agribusiness Market.
- Asiamoney Best Managed Companies 2008 Awards - Large-Cap Corporate of the Year, Singapore.
- Asiamoney Corporate Governance Poll 2008 - ranked 3rd for Best Overall for Corporate Governance, Singapore.



- Top 50 Singapore Brands by Brand Finance Consultancy - Wilmar's consumer brand portfolio ranked second in brand value with an "A" brand rating. Total brand portfolio valued at S\$2.9 billion.

China Group Operations

In recognition of the Group's businesses in China, Yihai Kerry Investments Co., Ltd. received the following awards:

- Awarded by China Enterprise Confederation and China Entrepreneurs Association:
 - China Top 200 Performance Enterprises 2008 - ranked 64th
 - China Top 500 Enterprises 2008 - ranked 79th
 - China Top 500 Manufacturing Enterprises 2008 - ranked 32nd
- China-made Food Enterprises Outstanding Contribution Award 2008 from the General Administrator of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) and China Association for Quality Promotion.
- 2008 China Charity Award - the Most Benevolent Foreign Enterprise from the Ministry of Civil Affairs, People's Republic of China.
- Foreign Funded Enterprises Infrastructure Contribution Award 2008 - jointly organised by People's Pictorial, Xinhua Daily Telegraph, Reference News, China Pictorial, Economic Information Newspaper and China Famous Brand Magazine.

Merchandising & Processing - Palm & Laurics

- Primaniyarta Award 2008 (Indonesian Export Award) for Best Performing Exporter, awarded by the

Indonesian Government to subsidiary - PT Karya Putrakreasi Nusantara.

- Refiners Certificate of Competency 2008 from Malaysian Palm Oil Board (MPOB) awarded to subsidiaries – Bintulu Edible Oils Sdn Bhd - 1st place, and PGE0 Edible Oils Sdn Bhd - 3rd place.

Merchandising & Processing – Oilseeds & Grains

- Top 100 Baking Enterprises Award from the All-China Federation of Industry and Commerce Baking Industry Association awarded to subsidiary - Shenzhen Southseas Grains Industries Limited, engaged in flour milling activities.

Consumer Products

- China - Arawana cooking oil was awarded Trusted and Reliable Brand for Edible Oils by the China Edible Oils Industry Association.
- Indonesia - Sania cooking oil was ranked No. 3 in the Indonesian Best Brand Survey 2008. The survey criteria included brand awareness, customer satisfaction, loyalty and market share among others.
- Vietnam - Neptune and SIMPLY brands were awarded Top 500 leading brands in Vietnam for 2008 by the Vietnam Chamber of Commerce.

Plantations & Palm Oil Mills

- Certification for sustainable palm oil by the Roundtable on Sustainable Palm Oil (RSPO) awarded to subsidiary, PPB Oil Palms Bhd, for meeting the RSPO Principles & Criteria in three of its mills - Sapi Palm Oil Mill, Reka Halus Palm Oil Mill and Sabahmas Palm Oil Mill.
- ISO 9001:2000 for quality management system in



the mill and plantations operations of subsidiaries - PT AMP Plantation, PT Perkebunan Milano and PT Tania Selatan.

- ISO 14001:2004 for environmental management system in the mill and plantations operations of subsidiaries - Rekahalus Sdn Bhd, PT AMP Plantation, PT Perkebunan Milano and PT Tania Selatan.
- Zero Accident Award from the Ministry of Labour and Transmigration of Indonesia awarded to subsidiaries - PT Tania Selatan, PT Buluh Cawang Plantations, PT Musi Banyuasin Indah and PT Agro Palindo Sakti. This award is a commendation of the plantation companies' safety and health programmes which contributed to zero accidents for the period 1 January 2005 to 30 September 2007.

Others

- Vietnam - Outstanding Foreign Direct Investment Enterprises Awards 2008 from the Ministry of Planning and Development and Vietnam Economic Times, awarded to subsidiary - Cai Lan Oils & Fats Industries Company Ltd.