

RISK MANAGEMENT



Overview

Risk management is an integral part of the Group's business model. The principal objective is to manage the various risks across the Group's operations. These include risks arising from commodity price, counterparty credit, interest rate and currency.

To ensure a sound system of internal controls, the Board has established a risk management framework for Wilmar and its subsidiaries. These policies and procedures provide a process to identify, quantify and control the risks faced by the Group. The ongoing compliance of these risk management processes and policies is carried out by the respective operating units and is regularly reviewed by the Group's Internal Audit.

The Group regularly assesses these processes and policies through internal reviews and external consultations, to ensure that they are appropriate and adequate.

Commodity Price Risk

Depending on the market situation, prices of raw materials and end products can fluctuate significantly. The Group is exposed to commodity price fluctuations because sale and purchase commitments may not typically match at the end of each business day. We minimise this price risk through careful management of our commodity positions. We also use forward physical and derivative contracts to hedge or minimise our price exposure.

Currency Risk

The Group operates in several countries and faces foreign currency risk when transactions or borrowings are denominated in currencies other than their respective functional currencies. Any movement in these currencies against the respective functional currencies may result in the Group incurring losses due to the settlement of these transactions or revaluation of borrowings, receivables and payables.



Where possible, we manage our currency exposures by matching sales and purchases in the same currency or through financial instruments, such as forward currency contracts.

However, the Group may still be exposed to currency 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 any open position.

Interest Rate Risk

Most of the Group's borrowings are in the form of trade financing and have short term tenors. The interest costs are typically priced into the products and passed on to customers. Therefore, short-term interest rate movements have minimal impact on our margins.

For long term borrowings, Wilmar may enter into financial instruments such as interest rates swaps to hedge or minimise our interest rate risk.

Counterparty Credit Risk

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

Factors affecting the credit worthiness of customers, such as their financial strength, operating track record, past payment history, transaction volume and duration of business relationship with the Group are considered and monitored closely when granting credit terms and limits. As a practice, we will usually require a Letter of Credit or conduct cash sales for new customers.

The Group periodically reviews credit terms granted and takes appropriate actions which include varying credit limits or tightening payment terms depending on customers' credit worthiness or market conditions.

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Risk Governance

The risk management framework, designed to safeguard shareholders' investment and the Group's assets, by its nature can only mitigate but not completely eliminate all risks especially systemic risks. Inherently, the framework can only provide reasonable and not absolute assurance against material misstatement or loss.

Wilmar's risk governance structure comprises three levels:

- The Risk Management Committee at the Board level;
- The Executive Risk Committee; and
- Risk management by the respective operating units.

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

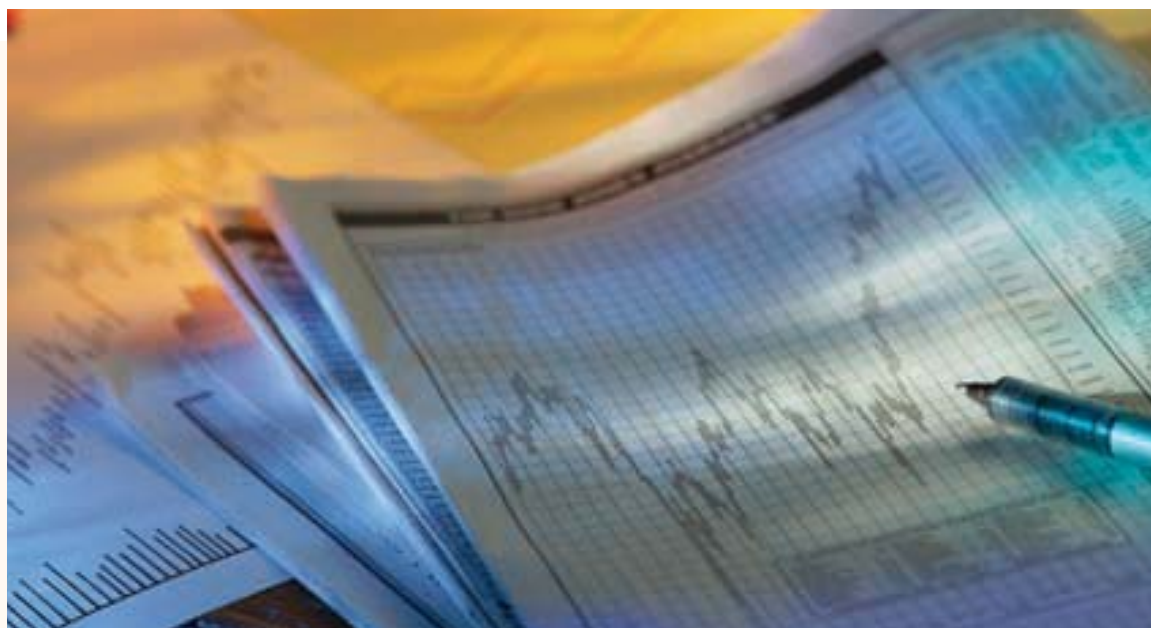
- overseeing the Executive Risk Committee;
- reviewing the overall risk management guidelines/framework;

- reviewing and recommending risk limits; and
- assessing the adequacy and effectiveness of the risk management policies and systems.

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

The heads of the operating units are responsible for monitoring their respective risks and adherence to policies and limits set by the Risk Management Committee and the Board.

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 capturing and measuring 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 operating units, Executive Risk Committee and/or Risk Management Committee when risk exposure is seen to be reaching trigger levels.

The Group has in place an 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 of all unhedged exposures across all products and geographical regions at any given time. The risk tolerance threshold is arrived at after taking into account the Group's equity strength and profitability. Other factors include the overall production capacity, the price trends of raw materials, the Board's overall view of the market and the projected sales volumes and turnover.