OPERATIONS REVIEW

A GLOBAL INTEGRATED AGRIBUSINESS

At the core of Wilmar's strategy is a resilient business model encompassing the entire value chain of the agricultural commodity business, from origination, processing, merchandising to manufacturing of a wide range of branded consumer products.

Over the years, we have invested substantially in building an integrated agri and food business which gives us economies of scale and operational efficiencies, allowing us to be one of the most efficient producers in the industry.

This efficiency is complemented by our strategically located facilities in both origin and destination markets, which enable us to manage logistic and operational costs effectively. We also own a fleet of liquid and dry bulk carriers to support our shipping requirements. As at 31 December 2023, the Group owned and controlled tankers / dry bulk vessels with a total tonnage of about 3.0 million MT.

Our business operations are further supported by our R&D activities. Our R&D efforts aim to improve manufacturing processes, ensure consistency and enhance the quality of existing products as well as develop new innovative products. Our R&D teams engage in cross-border collaborations and with external organisations to share knowledge and resources to enhance our collective R&D effort. Refer to pages 51 and 52 for more details.

One of our key assets is our people. We believe we have some of the best people in the industry who have stayed with us for many years and built our Group to what it is today. Our business partners are another great asset who have contributed to the success of the Group in many countries.

COMPANY DEVELOPMENTS

Although the global economy experienced slower growth in 2023, we remained focused on expanding our footprint selectively in regions that present opportunities, as well as improving integration across all segments of our business. In FY2023, we added capacities in various countries and regions such as China, Malaysia, Indonesia, Ghana, India, The Netherlands, Sri Lanka and Pakistan, in the following areas:

- Edible oil refining
- Oilseeds and palm kernel crushing
- Rice bran extraction
- Flour, palm oil and sugar milling
- Edible oil, rice and flour packing
- Specialty fats manufacturing
- Cake manufacturing

In China, our food park project is progressing as planned, with five locations in operation and five under construction. Our own central kitchens continue to expand our range of ready-to-eat products. In addition, we constructed a new condiment processing plant in Yangjiang.

In India, through our associate Adani Wilmar Limited (AWL), we expanded our distribution network in the rural areas, from approximately 14,000 towns to 26,000 towns, to tap on the growth potential there. In view of evolving consumer preferences, we also launched new products such as ready-to-cook biryani kits and brown rice under the Kohinoor brand, as well as Ozel multi-purpose cleaner for the hotels, restaurants and catering (HORECA) segment.

In March 2023, we completed acquisition of the remaining 24.0% stake in Calofic Corporation, the leading manufacturer and distributor of vegetable oils and associated products in Vietnam. Calofic is now an indirect wholly-owned subsidiary of Wilmar.

For our sugar business, we divested our 30.0% stake in our Moroccan associate, Cosumar S.A. (Cosumar), for an aggregate cash consideration of approximately US$583 million, recognising a gain of US$231.0 million. We also acquired Cosumar's entire 43.3% equity interest in Durrah Advanced Development Company for approximately US$64.7 million, increasing our stake from 5.0% to 48.3% in December 2023. Durrah is one of the largest producers of refined sugar in Saudi Arabia based in King Fahad Industrial Port, Yanbu.

AWL launched new products in response to evolving consumer preferences.

FOOD PRODUCTS

This segment comprises the processing, branding and distribution of a wide range of edible food products including vegetable oils, sugar, flour, rice, noodles, specialty fats, snacks, bakery and dairy products, ready-to-eat meals and central kitchen products. These food products are sold in either consumer and medium packaging or in bulk.

We are the largest producer of consumer pack edible oils in the world, with leading positions in China, Indonesia, India, Vietnam, Sri Lanka and several African countries. We also have growing sales of rice, flour, noodles and condiments under a diverse brand portfolio. Our range of high-quality essential food products has enabled us to build extensive sales and distribution networks in many countries. Our consumer brands are well-established and renowned for their quality, having won numerous product awards (**https://www.wilmar-international.com/about-us/awards**) in their respective markets.

Market Trends

After three years of muted demand and lagged recovery from the Covid-19 pandemic in China, demand from the HORECA segment recovered steadily in 2023. Although demand for consumer products in China also improved during the year, we experienced weaker demand for food products in other markets. The impact of higher raw material prices continued to be felt in the first half of 2023, but subsequently eased off and led to an improvement in profitability trends in the second half of the year.

Looking beyond the year, we believe that the Online-to-Offline (O2O) sales model as well as our self-operated flagship stores, specialty stores and private e-commerce channels will gain traction as buying behaviours of consumers continue to evolve. We will also continue to strengthen our e-commerce sales channel.

Our Performance

For FY2023, pre-tax profit for the Food Products segment declined to US$294.9 million (FY2022: US$730.1 million), due to weaker margins as a result of high feedstock costs for the flour business during the first half of the year. This was further impacted by the absence of a gain on dilution of interest in AWL of US$175.6 million, which was recognised in FY2022.

However, overall sales volume grew by 6% to 30.7 million MT in FY2023, with stronger volume recorded for medium pack and bulk products, in particular, for flour and rice products, which were in line with our expanded capacities.

Outlook & Strategy

We will focus on expanding our distribution channels and utilising our prominent brands, along with our R&D strengths, to develop a wider array of products including condiments and ready-to-eat meals. Additionally, we are working on producing lower cost and higher quality products to meet the changing preferences and behaviors of consumers.

Similar to the trend seen in 2023, demand for food products is expected to recover slightly as consumer sentiment and spending in countries such as China should continue to improve into 2024.

In India, we anticipate the fast-moving consumer goods sector to expand at a healthy rate due to rising disposable income as well as growth in the rural market, youth population and usage of e-commerce platforms. Our strategy in India is similar to China as we scale up our distribution network and develop our HORECA and exports channels.

Yihai Kerry Arawana's products listed on Chinese e-commerce platforms.

OPERATIONS REVIEW

FEED & INDUSTRIAL PRODUCTS

This segment comprises the processing, merchandising and distribution of animal feeds, non-edible palm and lauric products, agricultural commodities, oleochemicals, gas oil and biodiesel.

We operate crushing plants in China, India, Vietnam, Malaysia, Pakistan, Zimbabwe, Zambia and South Africa. We crush a wide range of oilseeds including soybean, rapeseed, groundnut, sunflower seed, sesame seed, cotton seed, copra and palm kernel. We are one of the world's largest copra and palm kernel crushers as well as the world's largest producer of palm biodiesel and oleochemicals, offering a comprehensive range of products from basic oleochemicals, derivatives to biofuels.

We also operate an integrated sugar business with milling, refining and ethanol production. We are one of the world's largest sugar traders with offices in Singapore, Dubai, Geneva, Sao-Paulo, and Mexico, trading about 13 million MT of raw and white sugar globally on an annual basis.

Oilseeds & Grains - Crushing

The effects of the drought in Argentina, which began in 2022 and continued into 2023, affected soybean production. This led to soybean prices remaining at relatively elevated levels in the first quarter of 2023 before starting to come off in April 2023. From May 2023, prices fluctuated amid weather concerns in the United States of America (US). Soybean prices began to rise in June 2023, as US reported hot and dry weather conditions but started to retreat towards end-June as there were expectations of better production. However, prices bounced back in July when the actual rainfall was less than forecasted. Thereafter, soybean prices eased again as the rain came during the critical soybean yield determination stages. The year ended with lacklustre export demand amid poor crush margins in China and slower selling from Brazil.

Soybean meal demand in China remained weak due to poor hog prices and margins.

Sugar Refinery in Mackay, Australia.

Tropical Oils

Crude palm oil (CPO) prices started the year at RM4,270 and trended downwards in anticipation of higher oil palm production, better weather conditions, as well as increased supply of other major vegetable oils. This trend reversed after Indonesia announced in February the suspension of some palm oil export permits to secure domestic supply ahead of the Ramadan festival. However, prices started to ease with improved weather conditions and concerns of a typical slowdown in demand post Ramadan season, coupled with lower competing vegetable oils prices. In May 2023, Indonesia allowed the use of the previously suspended palm oil export permits, causing CPO prices to retreat further.

In the second half of 2023, CPO prices rallied briefly because of supply concerns from drier weather conditions which began in the second quarter of the year, but subsequently came off as rainfall resumed. CPO prices remained rangebound for the rest of the year and closed at RM3,748, down 12% from the beginning of the year.

Indonesia also remained committed to its biodiesel mandate and increased its blending ratio to B35 during the year.

Sugar

A tighter sugar supply market prevailed in 2023 due to lower production from Europe, Thailand and China, and lower exports from India, which resulted in sugar prices moving from 19 US cents per pound to a 12-year high of nearly 28 US cents per pound. This tight situation is expected to continue into the first half of 2024.

However, given the coming bumper crop in Centre-South Brazil and a larger beet crop in the Northern Hemisphere, the supply situation is expected to ease in the second half of 2024. Brazil's ethanol parity is still well below sugar price, with a parity spread of over US$200 in favour of sugar.

Our Performance

In FY2023, the Feed and Industrial Products segment recorded lower pre-tax profit of US$926.7 million (FY2022: US$1.56 billion) mainly as the tropical oils business experienced weaker margins for its mid and downstream operations. The oilseeds division also saw weak crush margins in the first half of the year, arising from lower demand from the poultry and hog industries and elevated soybean prices in the second quarter. However, this was offset by better crush margins in the second half of the year. The sugar division also achieved better performance on the back of higher merchandising activities.

Despite challenging market conditions and poor hog margins, the Group recorded higher crushing volume mainly due to the resumption of Canada canola seeds imports into China in the first half of the year. Overall sales volume for the segment increased by 10% to 61.3 million MT as all the main businesses recorded a higher volume of sales.

Outlook & Strategy

Going into 2024, we expect soybean demand in China to remain soft as hog margins remain depressed.

For sugar, the refining and distribution businesses should stay supported most of 2024, as white sugar supply is expected to remain limited from key producing countries such as Thailand and Mexico. Therefore, the white premium should stay above a certain level to incentivise refining.

For tropical oils, we expect global demand to be muted but still supported by the Indonesian B35 biodiesel mandate.

OPERATIONS REVIEW

PLANTATION & SUGAR MILLING

This segment comprises oil palm plantation and sugar milling activities, which include the cultivation and milling of palm oil and sugarcane, as well as the production of compound fertilisers.

As at 31 December 2023, our total planted area for oil palm stands at 230,135 hectares (ha). Through joint ventures, we own plantations in Uganda and West Africa totalling approximately 60,000 ha. Wilmar also directly manages 36,642 ha under smallholder schemes in Indonesia and Africa, and another 170,324 ha under smallholder schemes through associates in Africa.

In recent years, we stepped up our re-planting programme and thus maintaining the average age of our plantations at a relatively young 13 years. This will support the medium to long-term growth of our plantation operations. Around 60% of the plantations are at the prime production age of seven to 18 years and 24% are at age six years and below.

We operate sugar cane and sugar beet mills in Australia, India, Myanmar and China. We are Australia's largest raw sugar producer accounting for more than half of Australia's raw sugar. Each year we crush about 15 million MT of sugarcane to make more than two million MT of raw sugar. About 80% of the raw sugar we produce is shipped to overseas markets.

We own 62.5% of Shree Renuka Sugars Limited (SRSL), the leading sugar company in India. SRSL has a cane crushing capacity of 9.2 million MT per annum and ethanol distillery capacity of 1,250 kilolitres per day. In Myanmar, we have a total sugar production capacity of 1.4 million MT and a bioethanol plant. In China, we process sugar beet in Inner Mongolia.

Our Performance

In FY2023, the Plantation and Sugar Milling segment's pre-tax profit decreased by 12% to US$500.1 million mainly due to lower profit from the oil palm plantation business as palm oil prices were lower during the year. However, this was offset by a US$231.0 million gain on disposal of Cosumar.

In oil palm plantations, poorer weather conditions and crop profile in Indonesia in the first half of the year resulted in only a marginal increase in fresh fruit bunches (FFB) production to 4.5 million MT and production yield remaining comparable at 21.0 MT per hectare for FY2023.

Firm sugar prices further supported the steady performance of the sugar milling business, with sales volume growing by 10% to 3.6 million MT and revenue increasing by 16% to US$1.50 billion in FY2023.

Outlook & Strategy

In the longer term, we see oil palm production plateauing as new plantings across the industry decrease, stemming from stricter sustainability criteria and limited availability of suitable land. However, we will continue exploring methods to increase FFB yields, without the need for further land expansion.

In the shorter term, oil palm production for the industry is expected to stay flattish in 2024 after recent years of good production as well as impact of the dry weather conditions in July and August 2023 which is expected to be felt in 2024's FFB production.

For sugar milling, the Far East premium should remain elevated due to lower production from Thailand in the first half of the year. However, we expect a larger crop in Australia, barring any negative weather events before the start of the crush season in June 2024. Overall, our sugar milling business is expected to be affected by lower sugar prices in 2024.

In FY2023, we re-planted 5,594 ha, keeping our plantations young and healthy.