

2 Significant Accounting Policies (continued)

2.31 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.32 Financial Risk Management

i) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group co-ordinates, under the directions of the directors, financial risk management policies and their implementation on a group-wide basis. The Group's treasury policies are designed to manage the financial impact of fluctuations in interest rates and exchange rates and to minimise the Group's financial risks. The Group uses derivative financial instruments, principally interest rate swaps, caps and collars, cross-currency swaps, forward foreign exchange contracts, forward currency options and commodity forward contracts, options and zero collar as appropriate for hedging transactions and managing the Group's assets and liabilities in accordance with the Group's financial risk management policies. Financial derivative contracts are executed between third party banks and the Group entity that is directly exposed to the risk being hedged. Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. The effective portion of the change in the fair value of the hedging instrument is deferred into the cash flow hedge reserve through other comprehensive income and will be recognised in profit and loss when the hedged item affects profit and loss. In general, the volatility in profit and loss can be reduced by applying hedge accounting.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. The Group assesses whether the derivative designated in each hedging relationship has been and expected to be effective in offsetting changes in cash flow of the hedged item using the hypothetical derivative method.

Ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated for hedges of foreign currency purchases, or if there are changes in the credit risk of the Group or the derivative counterparty.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, effective economic relationship existed between the swaps and the loans.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to: (i) the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan; (ii) differences in critical terms between the interest rate swaps and loans; and (iii) the effects of the forthcoming reforms to IBOR, because these might take effect at a different time and have a different impact on the hedged item (the floating-rate debt) and the hedging instrument (the interest rate swap used to hedge the debt). The ineffectiveness during 2021 or 2020 in relation to interest rate swaps and other hedges was not material.

Notes to The Financial Statements (continued)

For the year ended 31st December 2021

2 Significant Accounting Policies (continued)

2.32 Financial Risk Management (continued)

- i) Financial risk factors (continued)
 - a) Market risk

Foreign exchange risk

Entities within the Group are exposed to foreign exchange risk from future commercial transactions, net investments in foreign operations and net monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency.

Entities in the Group use cross-currency swaps, forward foreign exchange contracts and foreign currency options in a consistent manner to hedge firm and anticipated foreign exchange commitments and manage their foreign exchange risk arising from future commercial transactions. The Group does not usually hedge its net investments in foreign operations except in circumstances where there is a material exposure arising from a currency that is anticipated to be volatile and the hedging is cost effective. Group entities are required to manage their foreign exchange risk against their functional currency. Foreign currency borrowings are swapped into the entity's functional currency using cross-currency swaps except where the foreign currency borrowings are repaid with cash flows generated in the same foreign currency. The purpose of these hedges is to mitigate the impact of movements in foreign exchange rates on assets and liabilities and the profit and loss account of the Group.

Currency risks as defined by IFRS 7 arise on account of monetary assets and liabilities being denominated in a currency that is not the functional currency. At 31st December 2021, the Group's Indonesian Rupiah functional currency entities had United States Dollar denominated net monetary assets of US\$85.9 million (2020: net monetary liabilities of US\$189.1 million). At 31st December 2021, if the United States Dollar had strengthened/weakened by 10% against the Indonesian Rupiah with all other variables held constant, the profit attributable to shareholders of the Group would have been US\$3.2 million higher/lower (2020: US\$2.6 million lower/higher), arising mainly from foreign exchange gains/losses taken to the profit and loss account on translation. The sensitivity analysis ignores any offsetting foreign exchange factors and has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. There are no other significant monetary balances held by Group entities at 31st December 2021 that are denominated in a non-functional currency other than the cross-currency swap contracts with contract amounts of US\$2,052.4 million (2020: US\$2,599.0 million) and the United States Dollar denominated net monetary liabilities of the Company as described below. Differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

Since the Group manages the interdependencies between foreign exchange risk and interest rate risk of foreign currency borrowings using cross-currency swaps, the sensitivity analysis on financial impacts arising from cross-currency swaps is included in the sensitivity assessment on interest rates under the interest rate risk section.

At 31st December 2021, the Company had United States Dollar denominated net monetary liabilities of US\$1,234.9 million (2020: US\$1,256.8 million). At 31st December 2021, if the United States Dollar had strengthened/weakened by 10% against the Singapore Dollar with all other variables held constant, the profit attributable to shareholders of the Company would have been US\$123.5 million lower/higher (2020: US\$125.6 million), arising mainly from foreign exchange losses/gains taken to the profit and loss account on translation.

2 Significant Accounting Policies (continued)

2.32 Financial Risk Management (continued)

- i) Financial risk factors (continued)
 - a) Market risk (continued)

Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing liabilities and assets. These exposures are managed partly by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities, and partly through fixed rate borrowings and the use of interest rate swaps, caps and collars. The Group monitors interest rate exposure on a monthly basis by currency and business unit, taking into consideration proposed financing and hedging arrangements. The Group's guideline is to maintain 40% – 60% of its gross borrowings, exclusive of the financial services companies, in fixed rate instruments. The financial services companies borrow predominantly at a fixed rate. The interest rate profile of the Group's borrowings after taking into account hedging transactions are set out in Note 26.

Cash flow interest rate risk is the risk that changes in market interest rates will impact cash flows arising from variable rate financial instruments. Borrowings at floating rates therefore expose the Group to cash flow interest rate risk. The Group manages this risk by using forward rate agreements to a maturity of one year, and by entering into interest rate swaps, caps and collars for a maturity of up to five years. Forward rate agreements and interest rate swaps have the economic effect of converting borrowings from floating rate to fixed rate, caps provide protection against a rise in floating rates above a pre-determined rate, and collars combine the purchase of a cap and the sale of a floor to specify a range in which an interest rate will fluctuate. Details of interest rate swaps and cross-currency swaps are set out in Note 35.

Fair value interest rate risk is the risk that the value of a financial asset or liability and derivative financial instrument will fluctuate because of changes in market interest rates. The Group may manage its fair value interest rate risk by entering into interest rate swaps which have the economic effect of converting borrowings from fixed rate to floating rate, to maintain the Group's fixed rate instruments within the Group's guideline.

At 31st December 2021, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Group's profit after tax would have been US\$16.4 million (2020: US\$7.6 million) higher/lower and the hedging reserve would have been US\$37.4 million (2020: US\$38.6 million) higher/lower as a result of fair value changes to cash flow hedges. The sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. There is no significant variation in the sensitivity analysis as a result of interest rate caps and collars. The 100 basis point increase or decrease represents management's assessment of a reasonable possible change in those interest rates, specifically the Indonesian rates, which have the most impact on the Group over the period until the next annual balance sheet date. In the case of effective fair value hedges, changes in fair value of the hedged items caused by interest rate movements balance out in the profit and loss account against changes in the fair value of the hedging instruments. Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of profit after tax sensitivities. Changes in market interest rates of financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserves and are therefore taken into consideration in the equity-related sensitivity calculations.

At 31st December 2021, if interest rates had been 100 basis points higher/lower with all other variables held constant, the Company's profit after tax would have been US\$10.3 million (2020: US\$15.3 million) lower/higher.

Notes to The Financial Statements (continued)

For the year ended 31st December 2021

2 Significant Accounting Policies (continued)

2.32 Financial Risk Management (continued)

- i) Financial risk factors (continued)
 - a) Market risk (continued)

Price risk

The Group is exposed to securities price risk because of its equity investments which are measured at fair value through profit and loss and debt investments which are measured at fair value through other comprehensive income. Gains and losses arising from changes in the fair value of these investments are recognised in profit and loss or other comprehensive income according to their classification. The performances of these investments are monitored regularly, together with a regular assessment of their relevance to the Group's long-term strategic plans. Details of these investments are contained in Note 17.

The Group's interest in these investments are unhedged. At 31st December 2021, if the price of the Group's investments had been 30% higher/lower with all other variables held constant, total equity would have been US\$657.9 million (2020: US\$675.1 million) higher/lower, of which US\$434.6 million (2020: US\$475.4 million) relating to equity investments would be reflected in operating profit as non-trading items. The sensitivity analysis has been determined based on a reasonable expectation of possible valuation volatility over the next 12 months.

At 31st December 2021, if the price of the Company's equity investment had been 30% higher/lower with all other variables held constant, the Company's profit after tax would have been US\$79.3 million (2020: US\$66.9 million) higher/lower.

The Group is exposed to financial risks arising from changes in commodity prices, primarily crude palm oil, gold and coal. The Group considers the outlook for crude palm oil, gold and coal regularly in considering the need for active financial risk management. The Group's policy is generally not to hedge commodity price risk, although limited hedging may be undertaken for strategic reasons. To mitigate or hedge the price risk, Group companies may enter into a forward contract to buy the commodity at a fixed price at a future date, or a commodity derivative contract to sell the commodity at a fixed price or at a specific range of prices at a future date.

- b) Credit risk

The Group's credit risk is primarily attributable to deposits with banks, contractual cash flows of debt investments carried at amortised cost and those measured at fair value through other comprehensive income, credit exposures to customers and derivative financial instruments with a positive fair value. The Group has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group manages its deposits with banks and financial institutions and transactions involving derivative financial instruments by monitoring credit ratings and capital adequacy ratios of counterparties, limiting the aggregate risk to any individual counterparty. The utilisation of credit limits is regularly monitored. At 31st December 2021, deposits with banks and financial institutions amounted to US\$4,581.8 million (2020: US\$3,490.0 million) of which 11% (2020: 12%) were made to financial institutions with credit ratings of no less than A- (Fitch). This is because in Indonesia, it may be necessary to deposit money with banks that have a lower credit rating. However, the Group only enters into derivative transactions with counterparties which have credit ratings of at least investment grade. Management does not expect any counterparty to fail to meet its obligations.

The Company does not have significant deposits made to financial institutions with credit rating no less than A- (Fitch).

2 Significant Accounting Policies (continued)

2.32 Financial Risk Management (continued)

- i) Financial risk factors (continued)
- b) Credit risk (continued)

The Group's debt investments are considered to be low risk investments. The investments are monitored for credit deterioration based on credit ratings from major rating agencies.

In respect of credit exposures to customers, the Group has policies in place to ensure that sales on credit without collateral are made principally to corporate companies with an appropriate credit history and credit insurance is purchased for businesses where it is economically effective. The Group normally obtains collateral over motor vehicles and motorcycles from consumer financing debtors towards settlement of receivables.

Customers give the right to the Group to sell the collateral vehicles or take any other action to settle the outstanding receivable. Sales to other customers are made in cash or by major credit cards.

For lease receivables, the Group provides financing to its leasing customers based on applicable rules and company policies which are reviewed periodically.

The maximum exposure to credit risk of the Group and the Company are represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group's exposure to credit risk arising from consumer financing and trade debtors, and derivative financial instruments with a positive fair value are set out in Note 21. The Group's exposure to credit risk arising from deposits and balances with banks and financial institutions is set out in Note 22.

- c) Liquidity risk

Prudent liquidity risk management includes managing the profile of debt maturities and funding sources, maintaining sufficient cash and marketable securities, and ensuring the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Group's ability to fund its existing and prospective debt requirements is managed by maintaining diversified funding sources with adequate committed funding lines of evenly spread debt maturities from high quality lenders, and by monitoring rolling short-term forecasts of the Group's cash and gross debt on the basis of expected cash flows. In addition, long-term cash flows are projected to assist with the Group's long-term debt financing plans.

The Group's total available committed and uncommitted borrowing facilities at 31st December 2021 amounted to US\$12,046.8 million (2020: US\$11,808.2 million) of which US\$6,560.2 million (2020: US\$7,125.0 million) was drawn down. Of the committed facilities, US\$2,385.0 million which are referenced to US\$ LIBOR will expire beyond 30th June 2023, the cessation date of US\$ LIBOR. Undrawn committed facilities, in the form of revolving credit and term loan facilities, totalled US\$2,412.1 million (2020: US\$2,883.7 million).

As at 31st December 2021, the Company has long-term borrowings of US\$1,535.9 million (2020: nil) and current borrowings of US\$10.0 million (2020: US\$1,569.1 million). The Company manages its liquidity risk mainly by extending the maturity of its borrowing facilities and obtaining additional borrowing facilities as appropriate.

The following table analyses the Group's non-derivative financial liabilities, derivative financial liabilities and estimated claims on insurance contracts into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity dates. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to The Financial Statements (continued)

For the year ended 31st December 2021

2 Significant Accounting Policies (continued)

2.32 Financial Risk Management (continued)

- i) Financial risk factors (continued)
- c) Liquidity risk (continued)

	Within one year US\$m	Between one and two years US\$m	Between two and three years US\$m	Between three and four years US\$m	Between four and five years US\$m	Beyond five years US\$m	Total US\$m
2021							
Borrowings	2,926.8	1,960.8	1,798.8	130.7	88.4	175.4	7,080.9
Lease liabilities	57.2	31.9	14.9	2.2	0.9	30.3	137.4
Creditors	3,073.3	2.4	2.0	2.6	3.4	0.5	3,084.2
Gross settled derivative financial instruments							
– inflow	928.7	717.3	407.5	92.0	27.9	–	2,173.4
– outflow	709.2	758.8	276.1	94.5	28.8	–	1,867.4
Estimated claims on insurance contracts	251.9	–	–	–	–	–	251.9
2020							
Borrowings	4,454.7	1,817.4	919.6	304.8	89.1	122.1	7,707.7
Lease liabilities	69.0	37.1	16.8	5.5	2.8	34.2	165.4
Creditors	2,230.6	–	0.1	1.5	2.4	6.9	2,241.5
Gross settled derivative financial instruments							
– inflow	1,359.4	748.6	415.4	165.3	50.3	–	2,739.0
– outflow	1,465.2	806.9	439.3	177.3	51.0	–	2,939.7
Estimated claims on insurance contracts	230.2	–	–	–	–	–	230.2

Included in total undiscounted borrowings at 31st December 2021, US\$1,365.0 million (2020: US\$3,555.5 million) are referenced to US\$ LIBOR and mature beyond 30th June 2023, the cessation date of US\$ LIBOR.

As at 31st December 2021, the Company has undiscounted borrowings of US\$613.8 million that are referenced to US\$ LIBOR and mature beyond 30th June 2023, the cessation date of US\$ LIBOR.

- ii) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern while seeking to maximise benefits to shareholders and other stakeholders. Capital is total equity as shown in the consolidated balance sheet plus net debt.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditure and projected strategic investment opportunities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, purchase Group shares, return capital to shareholders, issue new shares or sell assets to reduce debt.