

Knowledge Sharing

Foreign Currency Management



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January 19th, 2023

Agenda



Hedging principle at Thai Union

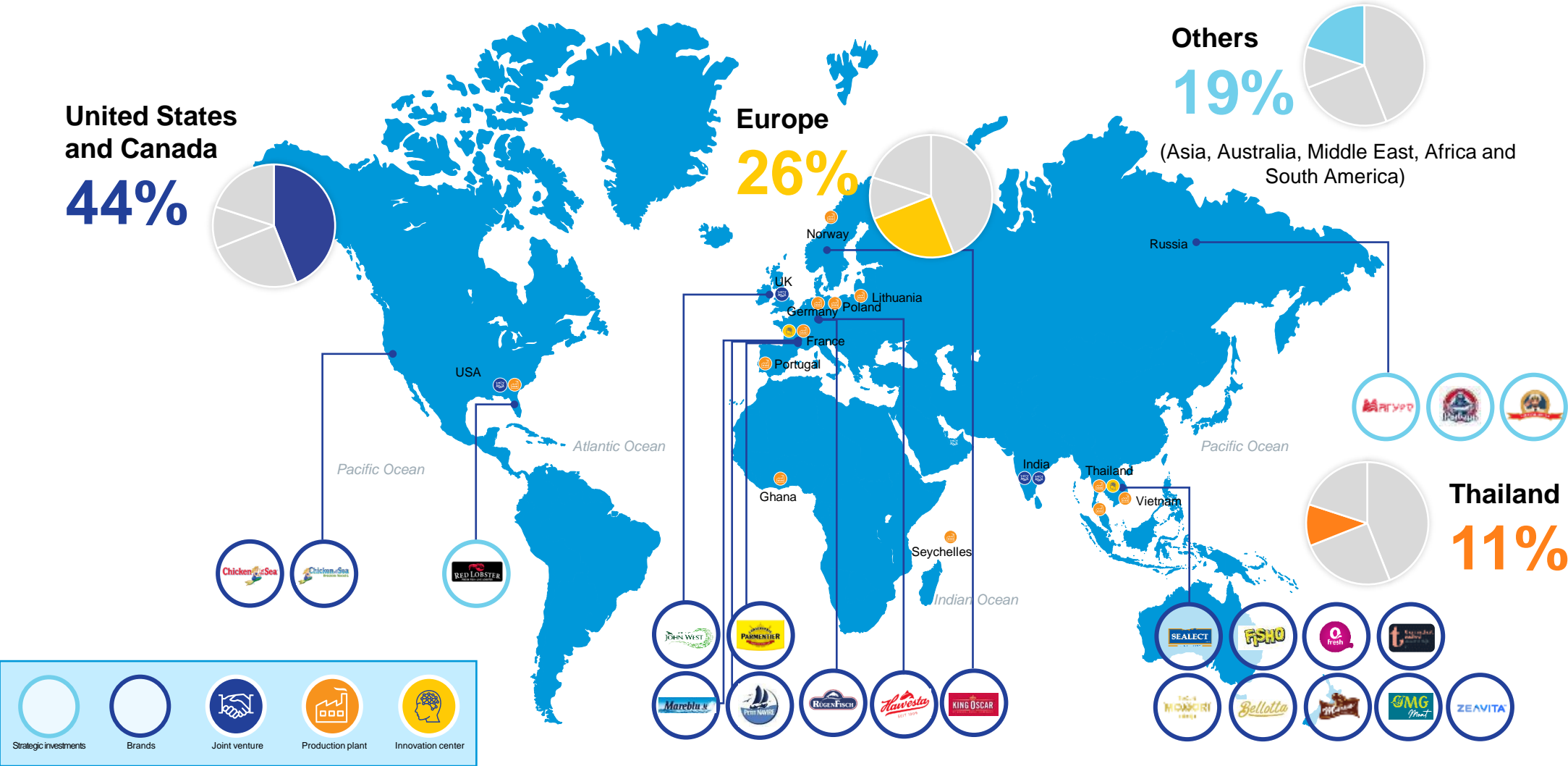


Accounting aspects from hedging



Q&A

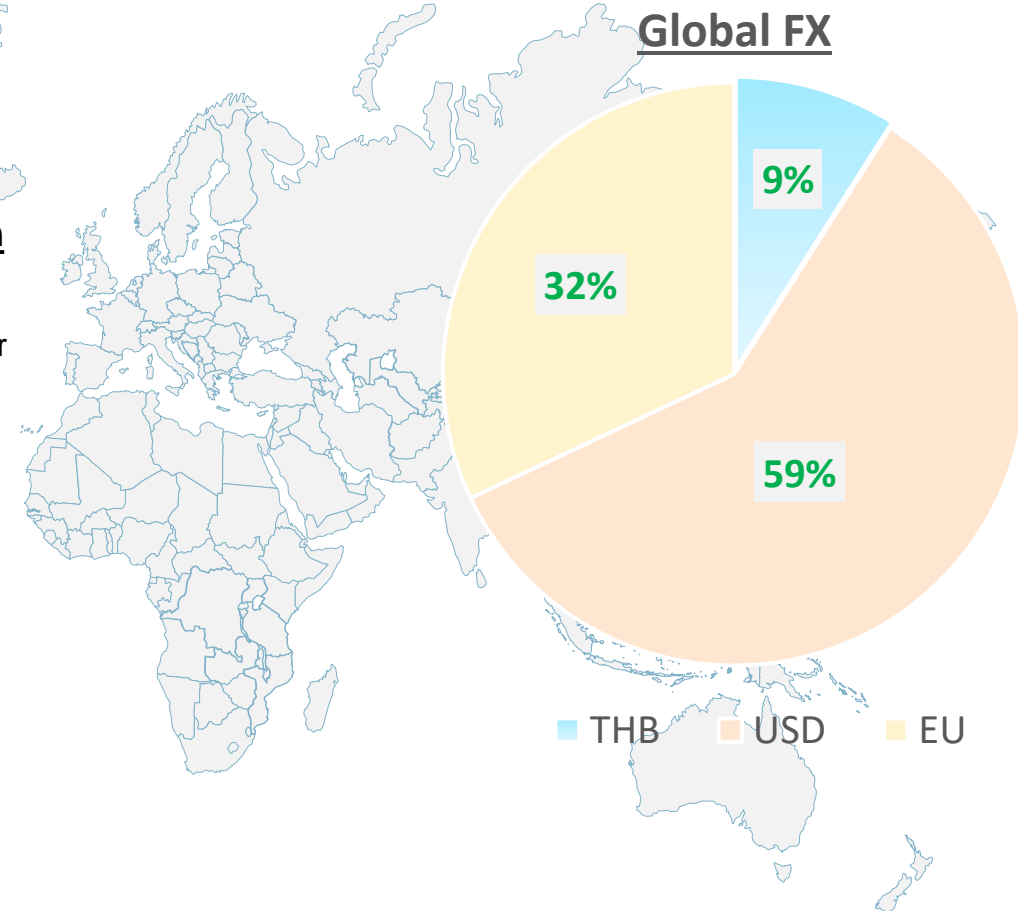
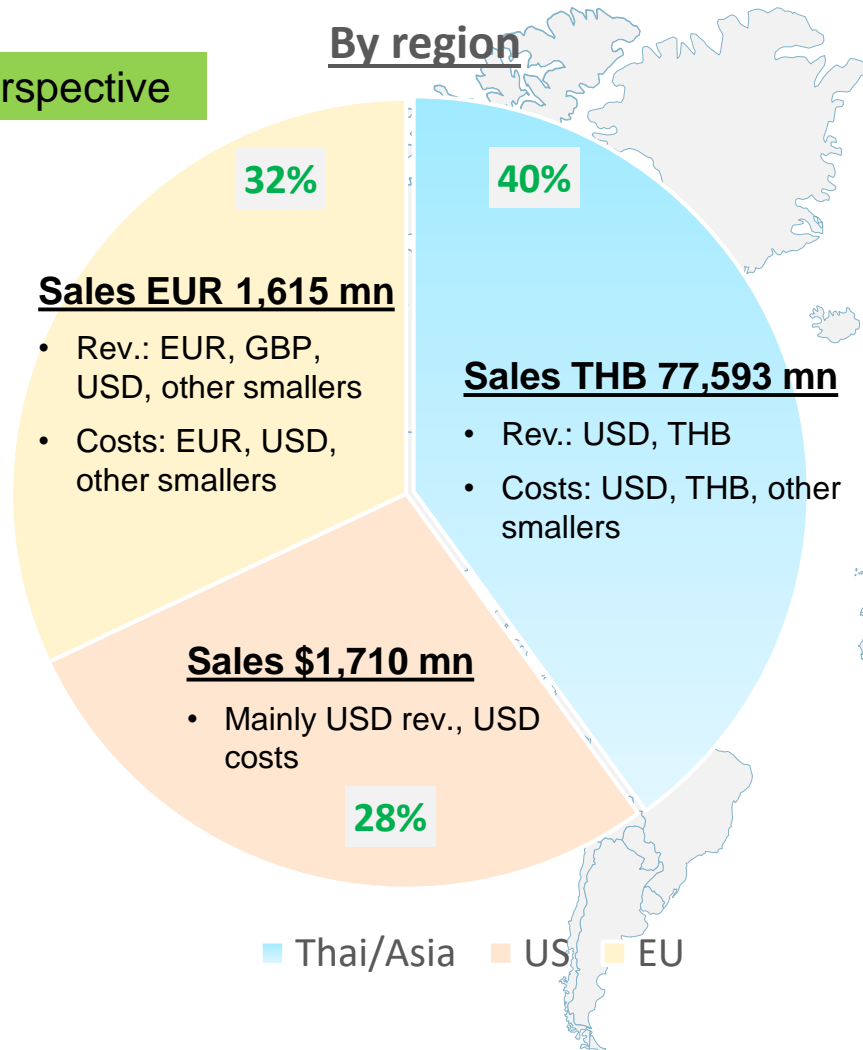
Global supply chain with a market-leading brand portfolio and strong presence in the U.S. and Europe



Remark: *9M22 total sales

FX Exp-Imp risks by region/at global and underlying currencies behind

Transactional perspective



Financial risk management and treasury policy

Objective: To lock the profit as planned when offering the products, not for speculation

Strategy: Pass on cost, including FX and interest impact, is the key strategy

FX Risk

Today's focusing



From Trading activities:

- **TH:** 100% of AR & 40-85% (from 25-75%) of stock
- **EU & US:**
 - OEM/Branded : 0-6 months : 75 – 100%
 - 6-12 months : 50 – 100%
 - Premium Branded : 0-12 months : 60 – 100%
 - : 12-24 months : 40 – 80%

Quite straightforward



From Financing/Investing activities:

- FX Principle on Inter-co Loan
Principle: **100% hedge**
- FX Equity Hedging: Group Treasury Team proposes to TU Executive Committee

No concern

Interest Rate Risk



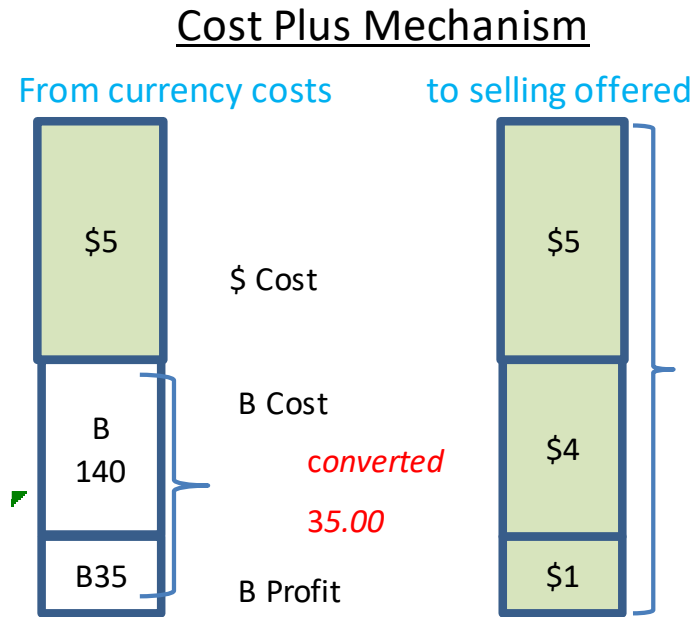
Fixed & Floating:

- 25 - 75% fixed interest

Focusing on OEMs Thai operations

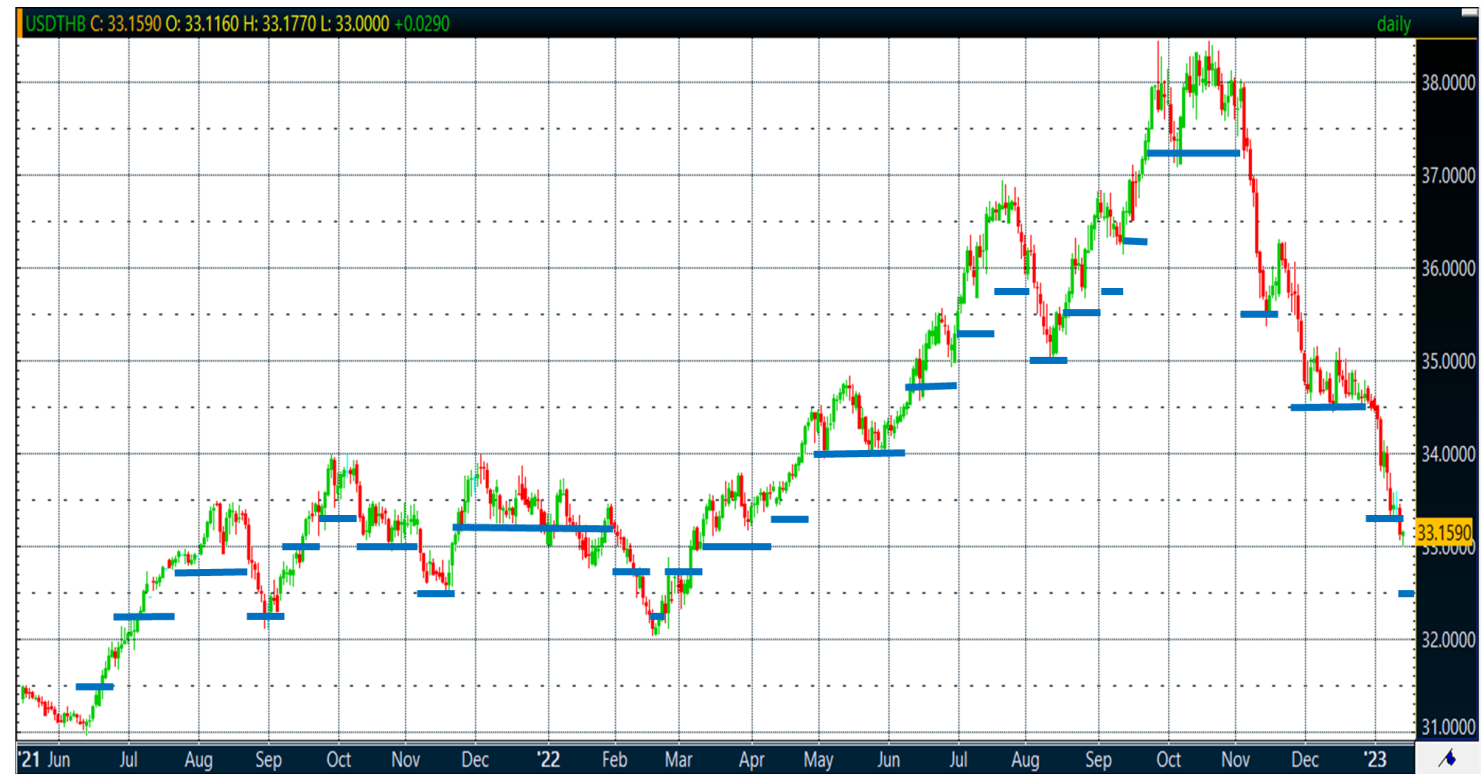
Pass on mechanism and profit locking

Illustration on Pricing quotation



\$ 10 selling price with expected 10% NP

FX risk has been passed to product pricing **thru FX converted rate***



Remark: * Treasury will announce this FX converted rate to Sales team at the rate that could be able to hedge.

Different natures of sales order negotiation on OEM business

Ambient seafood

(THB 49,424mn)



Frozen & chilled seafood

(THB 42,511mn)



PetCare, value-added & others

(THB 24,039mn)

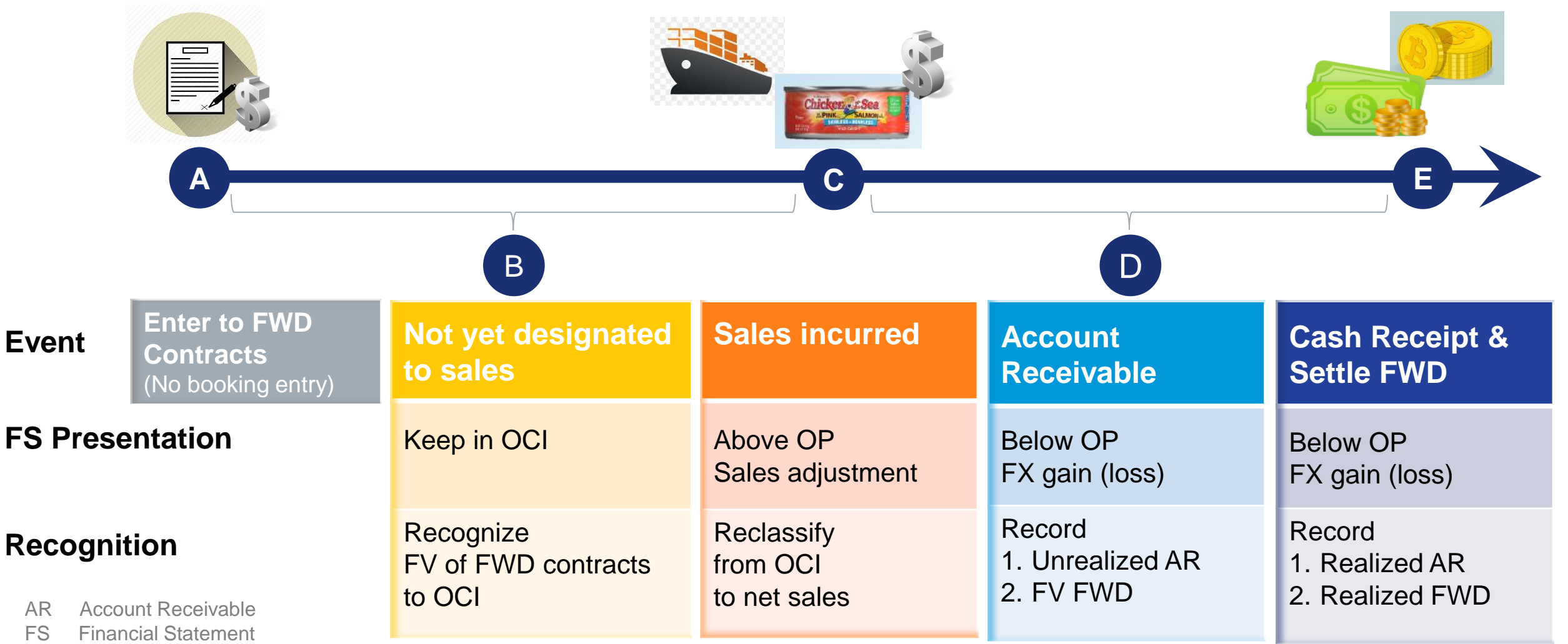


- 80% of business with many payment terms to reflect credit risks
 - *ST orders: 3-6 mths to complete from Order to Cash (O2C)*
 - *Assume average: 4.5 mths.*

- 20% of business with many payment terms to reflect credit risks
 - *80% LT orders: 9-18 mths to complete O2C, assume avg.: 12 mths.*
 - *20% ST orders: 3-6 mths to complete O2C, assume avg.: 4.5 mths*

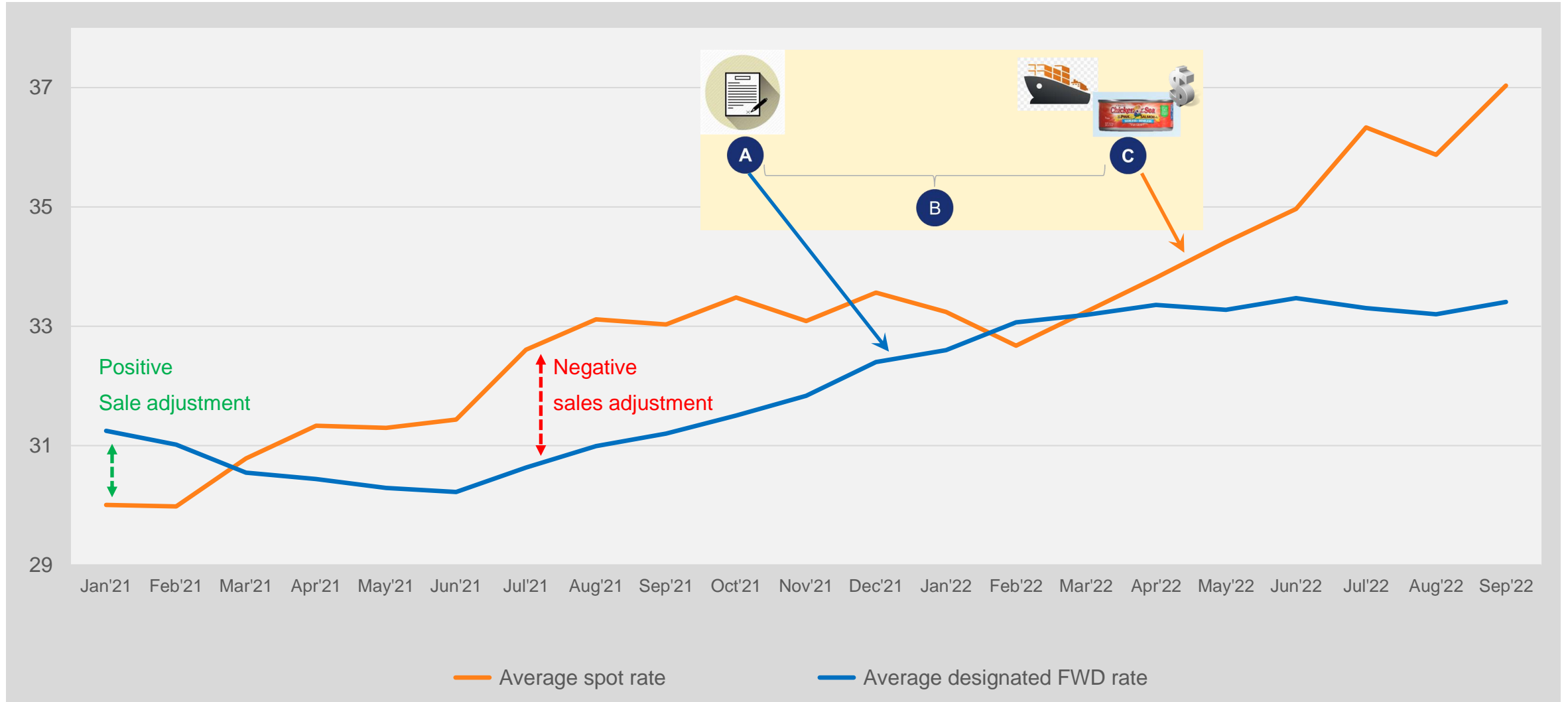
Overall, average O2C is 6 months

Manage GP to not volatile by hedging from the day enter to sale order till sales incurred
 AR hedging is in parallel with the same forward contract until settle AR to mitigate FX fluctuation.



AR Account Receivable
FS Financial Statement
FV Fair Value
FWD Forward
FX Foreign Exchange
OCI Other Comprehensive Income (in Equity)

The designated forward rate trends are about 3-4 months behind the spot rate

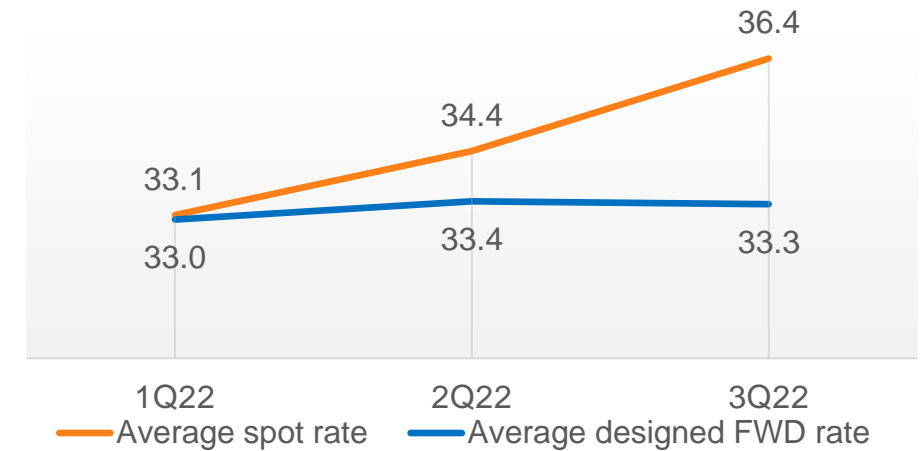


Hedge accounting reflects to recognize in sales as planned.
Mismatch / unplanned will be presented below operating profit.

mTHB	1Q22	2Q22	3Q22
Sales	36,310	39,247	41,653
Sales adjustment	-38	-301	-897
Net sales	36,272	38,946	40,756
Cost of sales	-29,917	-32,361	-33,357
Selling & admin. exp.	-4,714	-4,943	-5,117
Operating profit	1,641	1,642	2,282
FX gains (losses) trading	-1	654	638
Other items	106	-672	-390
Net profit	1,746	1,624	2,530

- FX gains (losses) from accounts payable is included in FX gains (losses) trading but it's insignificant amount and it's natural hedge.
- Other items is presented irrelevant to hedge on trading activities e.g. FX gains (losses) on financing activities, finance cost, and taxable income (expenses)

FX rate related to sales adjustment



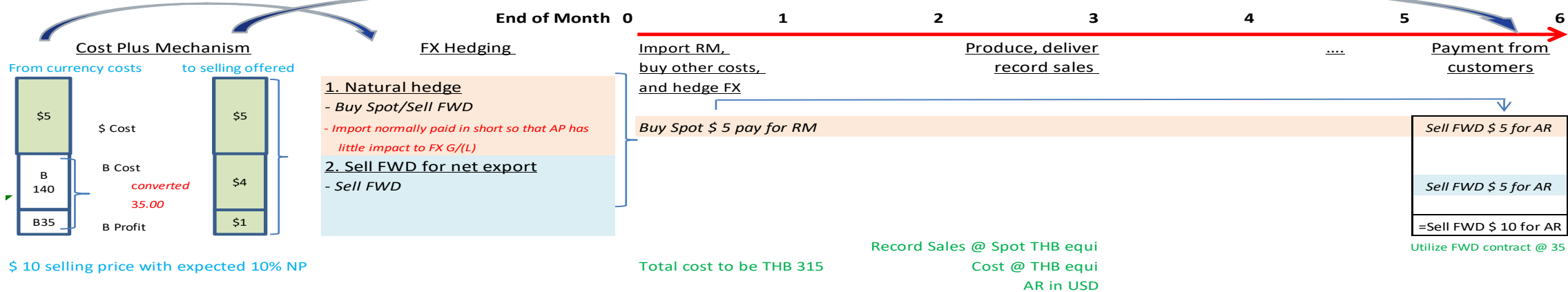
The exchange rate is from key operations in Thailand

FX gains (losses) trading is due to

- The difference between closing rate vs average spot rate at the end of period (unrealize)
- The adjustment realized on the AR hedged
- Combined with the impact on recognize of account payable

Hedge Accounting has been used to reflect hedging purpose

Ideal concept of 1 transaction



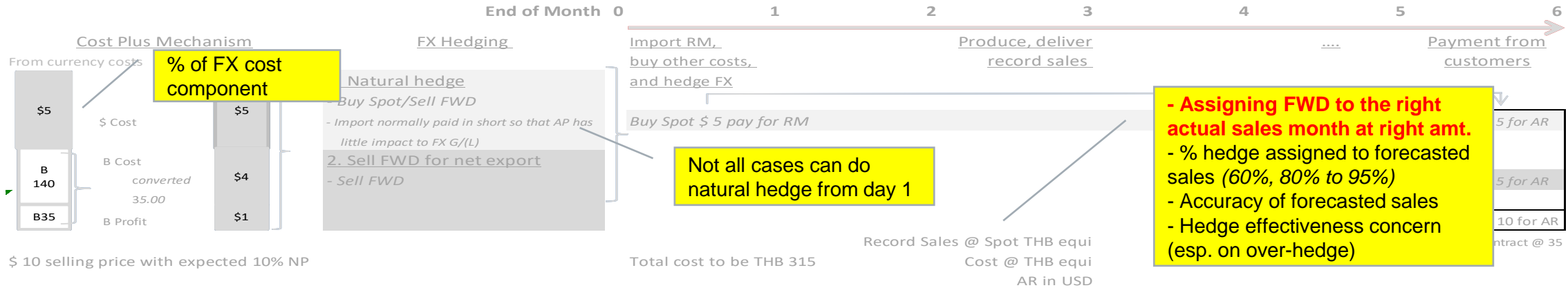
Case 1: USD/THB up	USD/THB Month-end	35.50	36.00	36.50	37.00	37.50	38.00	Summary of all
FX G/(L) from \$10 FWD	(35.00-Spot) * \$10	-5	-10	-15 (reserved at OCI-Equity waiting for Sales to be recorded)				
Above GP (Reflecting back to FWD rate)	Sales			365				365
	+/- Sales Adjustment from Hedging			-15				-15
	Total cost			-315				-315
	Gross Margin	0	0	35	0	0	0	35
Below GP (Net off FX G/L)	FX G(L) from FWD starting @ 36.50	0	0	0	-5	-5	-5	-15
	FX G(L) from AR starting @ 36.50	0	0	0	5	5	5	15
	Net Profit	0	0	35	0	0	0	35

Case 2: USD/THB down	USD/THB Month-end	34.50	34.00	33.50	33.00	32.50	32.00	Summary of all
FX G/(L) from \$10 FWD	(35.00-Spot) * \$10	5	10	15 (reserved at OCI-Equity waiting for Sales to be recorded)				
Above GP (Reflecting back to FWD rate)	Sales			335				335
	+/- Sales Adjustment from Hedging			15				15
	Total cost			-315				-315
	Gross Margin	0	0	35	0	0	0	35
Below GP (Net off FX G/L)	FX G(L) from FWD starting @ 33.50	0	0	0	5	5	5	15
	FX G(L) from AR starting @ 33.50	0	0	0	-5	-5	-5	-15
	Net Profit	0	0	35	0	0	0	35

But, with a lot of complications however, profit is already locked

With almost 20,000 invoices each year from different OEM businesses

We manage as portfolio.
Doing matching by invoice
requiring huge efforts



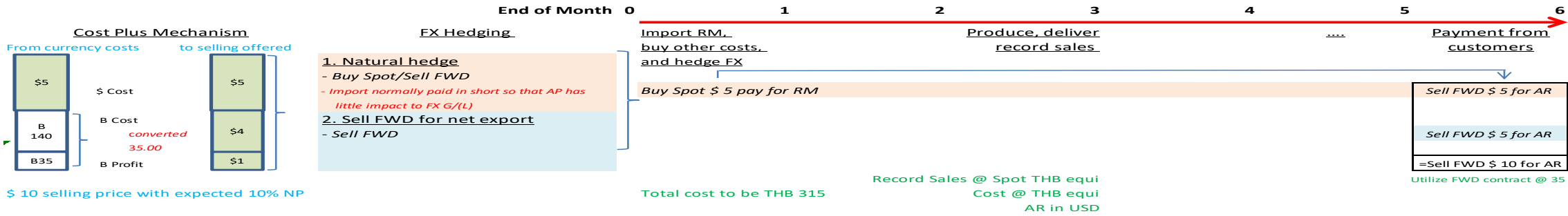
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	FX G(L) from AR starting @ 36.50	0	0	0	5	5	5	15
	Net Profit				0	0	0	35

Forward ("FWD") utilization and remaining FWD amount and AR amount

Case 2: USD/THB down	USD/THB Month-end	34.00	33.50	33.00	32.50	32.00	Summary of all
FX G/(L) from \$10 FWD	(35.00-Spot) * \$10	5	10	15 (reserved at OCI-Equity waiting for Sales to be recorded)			
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Below GP (Net off FX G/L)	FX G(L) from FWD starting @ 33.50	0	0	0	5	5	15
	FX G(L) from AR starting @ 33.50	0	0	0	-5	-5	-15
	Net Profit	0	0	35	0	0	35

Desired profit is still remain kept within time horizon (No matter too early/late FWD assignment or FWD usage)

Illustration on too early/late FWD assignment



USD/THB up Case	USD/THB Month-end	35.50	36.00	36.50	37.00	37.50	38.00
FX G/(L) from \$10 FWD	(35.00-Spot) * \$10	-5	-10	-15 (reserved at OCI-Equity waiting for Sales to be recorded)			
Above GP (Reflecting back to FWD rate)	Sales			365			
	+/- Sales Adjustment from Hedging			-15			
	Total cost			-315			
	Gross Margin	0	0	35	0	0	0
Below GP (Net off FX G/L)	FX G(L) from FWD starting @ 36.50	0	0	0	-5	-5	-5
	FX G(L) from AR starting @ 36.50	0	0	0	5	5	5
	Net Profit	0	0	35	0	0	0

Too early to assign	USD/THB Month-end	35.50	36.00	36.50	37.00	37.50	38.00
FX G/(L) from \$10 FWD	(35.00-Spot) * \$10	-5	-10 (reserved at OCI-Equity waiting for Sales to be recorded)				
Above GP (Reflecting back to FWD rate)	Sales			365			
	+/- Sales Adjustment from Hedging		-10	0			
	Total cost			-315			
	Gross Margin	0	-10	50	0	0	0
Below GP (Net off FX G/L)	FX G(L) from FWD starting @ 36.00	0	0	-5	-5	-5	-5
	FX G(L) from AR starting @ 36.50	0	0	0	5	5	5
	Net Profit	0	-10	45	0	0	0

Too late to assign	USD/THB Month-end	35.50	36.00	36.50	37.00	37.50	38.00
FX G/(L) from \$10 FWD	(35.00-Spot) * \$10	-5	-10	-15	-20 (reserved at OCI-Equity waiting for Sales to be recorded)		
Above GP (Reflecting back to FWD rate)	Sales			365			
	+/- Sales Adjustment from Hedging			0	-20		
	Total cost			-315			
	Gross Margin	0	0	50	-20	0	0
Below GP (Net off FX G/L)	FX G(L) from FWD starting @ 37.00	0	0	0	0	-5	-5
	FX G(L) from AR starting @ 36.50	0	0	0	5	5	5
	Net Profit	0	0	50	-15	0	0

Summary of all
365
-15
-315
35
-15
-15
35

Summary of all
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40
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35

Key Takeaways – Foreign Currency Management at Thai Union



- **Very conservative and do not speculate**
- Always hedge as soon as we have ordered, hedge accounting helps **reducing volatility** on the financial statement but does not remove it
- Hedge accounting can be **temporally exposed during the period** during the O2C period. Those impacts should be net off showing net profit that we plan from day 1, the resulting from
 - an accounting mismatch and lagging time between average hedge rate and spot rate (sales adjustment)
 - Forward utilization against planned (FX gain/loss adjustment below GP)

Q&A

