Chairman’s Fifth Letter to Shareholders

To the Shareholders of FGV Holdings Berhad,

When I last wrote to you in April 2020, the market had been speculating for almost two years that FELDA was having a serious rethink about its way forward. The main concerns were the cost to taxpayers of maintaining FELDA, the wellbeing of settlers and how to encourage self-sufficiency in the future. From the outset, one of the identified solutions for these issues was tied up with FGV Holdings Berhad (FGV). Thus, they mulled two main options, namely, (i) taking back the 350,000 ha of land leased to FGV prior to our listing in 2012 under a Land Lease Agreement (LLA); and (ii) taking FGV private. At the time, FELDA had a 33.7% stake in FGV.

While the market, the authorities, everyone with vested interests in FELDA and FGV kept the conversations alive, your Board and Management decided that we could not afford to be distracted from the task at hand. Each one of us had committed to FGV’s turnaround programme and transformation plan. FGV did not have the luxury of time, nor the financial resources to give us any breathing space. Thus, our priorities remained unchanged: safeguarding investor interest and executing our fiduciary duties regardless of the uncertain circumstances.

<u>The Turnaround</u>

The FGV we took on was a very different animal from the FGV we had envisioned for the future. To achieve our goals, we had to ensure that management was executing all approved strategic plans to the best of their ability. By the middle of 2020, we knew that the operational turnaround was on the right track and that the results were starting to show. If not for the Covid-19 pandemic and the resulting problems, 2020 would have been a better year.

Turning FGV around was no mean feat. It required much discipline and fortitude, as an unforgiving world scrutinised our every move. We understood the scepticism and accepted that the scrutiny was well deserved. Afterall, FGV had announced several turnarounds and/or transformation plans since its 2012 listing, but each had failed to yield the desired results.

We had decided to take a 360° approach to address the myriad issues we were facing, which turned out to be both complex and complicated. Although it is now clear that the turnaround plan is bearing fruit, over the last two years there have been sleepless nights and a lot of tension as we tracked targets and assessed performance. There were certainly missteps, but the team has prevailed. I am proud of all they have achieved over the last 24 months or so.

How have we done?

Operational Performance (FY2013 – FY2020)

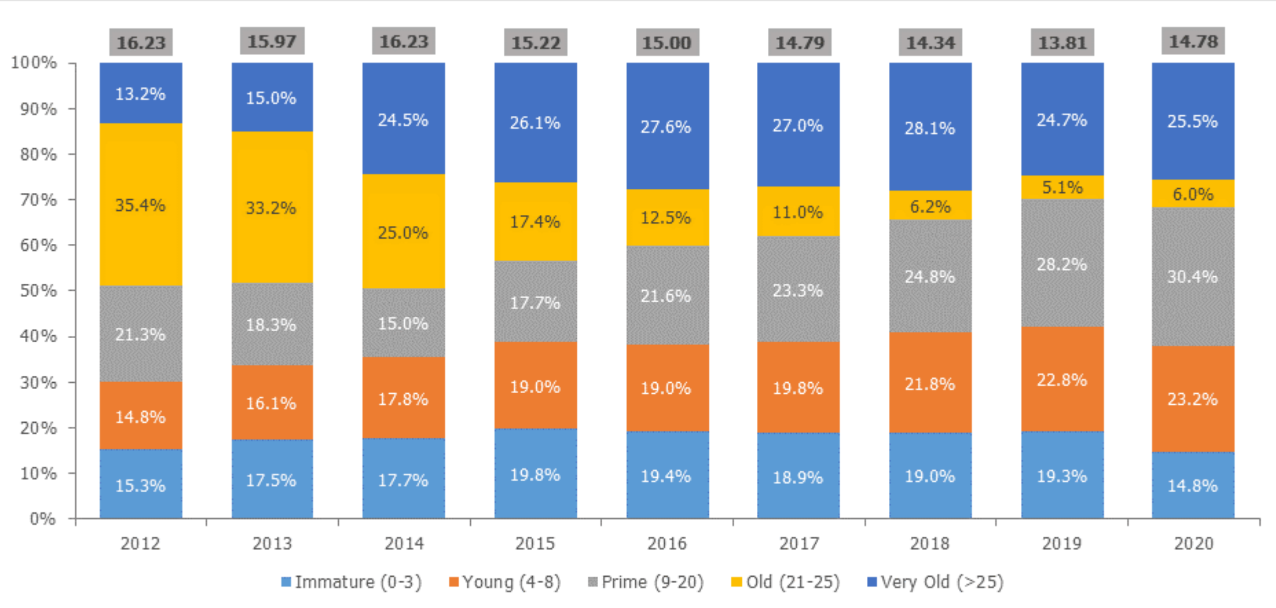
Items	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014	FY2013
FFB Production (mil MT)	4.28	4.45	4.21	4.26	3.91	4.63	4.97	5.1
FFB Yield (MT/Ha)	16.94*	18.44*	16.89*	16.94*	14.52	17.93	18.94	18.99
CPO Production (mil MT)	2.87	3.07	2.82	2.99	2.66	3.10	3.11	3.23
PK Production (mil MT)	0.72	0.77	0.72	0.77	0.67	0.79	0.81	0.85
Oil Extraction Rate (OER) (%)	20.32	20.61	20.49	19.83	20.68	20.91	21.01	20.44
Kernel Extraction Rate (KER) (%)	5.09	5.20	5.23	5.09	5.19	5.36	5.46	5.34
Avg. CPO Price (RM/MT)	2,675	2,021	2,282	2,792	2,560	2,210	2,410	2,333
Average CPO Production Cost, Ex mill (RM/MT)	1,619	1,503	1,800	1,601	1,595	1,353	1,402	1,470
Lauric Sales Vol. (MT) (Include RBDPKO, CPKO & PFAD)	315,577	369,839	329,495	330,399	313,358	335,284	362,719	398,396
Oleochemical Sales Vol. ('000 lbs)	337.75	335.63	316.88	326.06	324.24	326.72	335.47	352.16

**based on normalised planted area.*

Oil Palm Age Profile

- During IPO in 2012, nearly half of FGV's planted landbank had trees aged 21 years and older.
- Our disciplined replanting plan has increased hectarage of trees in the 'prime age'

category, leading to increased FFB production.



Financial Performance (FY2012 – FY2020)

Items	FY2020#	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014	FY2013	FY2012
Revenue	RM14.08 bil	RM13.26 bil	RM13.46 bil	RM16.92 bil	RM17.24 bil	RM15.56 bil	RM15.26 bil	RM12.57 bil	RM12.89 bil
Operating Profit/(Loss) Before impairment and LLA	RM834 mil	RM297 mil	RM367 mil	RM854 mil	RM598 mil	RM642 mil	RM1,005 mil	RM696 mil	RM1,191 mil
Impairments	(RM227) mil	(RM254) mil	(RM949) mil	(RM149) mil	(RM153) mil	RM104 mil	RM106 mil	(RM43) mil	(RM24) mil
Fair value changes in LLA liability	(RM158) mil	(RM237) mil	(RM233) mil	(RM293) mil	(RM68) mil	(RM225) mil	(RM115) mil	494 mil	(RM210) mil
P/(L) BZT	RM353 mil	(RM339) mil	(RM1,025) mil	RM403 mil	RM260 mil	RM453mil	RM971 mil	RM1,536 mil	RM1,094 mil
P/(L) ATAMI	RM150 mil	(RM246) mil	(RM1,081) mil	RM131 mil	RM31 mil	RM182 mil	RM325 mil	RM982 mil	RM806 mil
Earnings Per Share	4.1 sen	(6.7) sen	(29.6) sen	3.6 sen	0.9 sen	5.0 sen	8.9sen	26.9 sen	28.5 sen
Dividend Per Share	3.0 sen	2.0 sen	0.0 sen	5.0 sen	1.0 sen	4.0 sen	10.0 sen	16.0 sen	14.0 sen

Return on Shareholders Fund	3.52%	(5.90)%	(24.21)%	2.35%	0.53%	3.12%	5.72%	14.94%	13.21%
Net assets per share	RM1.17	RM1.14	RM1.22	RM1.53	RM1.59	RM1.60	RM1.56	RM1.80	RM1.67
Cash and cash equivalent (deposits, cash & bank balances)	RM1,729 mil	RM1,618 mil	RM1,220 mil	RM1,740 mil	RM1,854 mil	RM2,503 mil	RM3,673 mil	RM5,029 mil	RM5,688 mil
Total borrowings without LLA	RM4,293 mil	RM4,907 mil	RM5,403 mil	RM5,497 mil	RM5,580 mil	RM5,444 mil	RM4,703 mil	RM4,348 mil	RM2,440 mil
Liquidity ratio	1.39 times	1.51 times	1.47 times	1.26 times	1.21 times	1.21 times	1.16 times	1.03 times	1.16 times
Gearing Ratio* without LLA	0.70 times	0.80 times	0.82 times	0.70 times	0.68 times	0.65 times	0.58 times	0.49 times	0.35 times

[#]*As per the Quarterly Announcement made on 26 February 2021*

In any plantation company, there are a few non-negotiables. These are things all companies must implement rigorously to avoid consequences in the future.

- Replanting. At the time of listing FGV's age profile was 16.2 years. Of that, about 49% were trees over 20 years old. Replanting had to be done in a structured manner, to ensure the age profile is corrected for the future. We had to ensure that after this period of pain, FGV, like all other planters would replant at the rate of 4-5% annually. Today FGV's age profile is far improved. Young and prime age trees amount to 54%, compared to 36% at the time of listing. Trees classified as old and very old have meanwhile dropped to 32% from 49% in 2012. If the commitment is maintained, FGV will achieve its optimum age profile by 2026. The other unfortunate thing about replanting is the cost. Over the last 9 years, FGV has invested an average of RM300 million every single year on replanting. When we were cash strapped, this was not an easy commitment to live up to.
- Fertilising. Due to cash flow problems, there were periods in the past when fertiliser application was reduced or even stopped. This had a knock-on effect on yield and of course the Group's bottomline. We made the commitment to ensure that fertiliser is always applied at the right time and in the right quantities. While this may sound simple enough, it was one of those things that we had to keep an eagle eye on, and to resist the temptation to cut corners to meet budget targets.
- Managing the estates. Between 2016 and 2017, FGV suffered a chronic shortage of workers. At its worst, we were short by 11,000. The cause of the worker shortage has since been addressed and manpower numbers were normalised by January 2019. Currently, as a result of border closures due to Covid-19, like the rest of the industry, FGV is suffering from a shortage of 7,806 workers. We expect this to be rectified once

borders open up.

Another critical area we looked at was the balance sheet. In 2018, the Group had total debts of RM5.4 billion and cash and cash equivalents amounting to RM1.2 billion. This compares to cash and cash equivalents of RM5 billion right after listing. As at the end of 2020, we had managed to reduce borrowings by RM1.1 billion to RM4.3 billion, while increasing cash and cash equivalents to RM1.7 billion.

The Transformation

With the turnaround on the right track, we turned our focus on the strategic transformation plan. We needed to ensure that FGV had a stronger and more diverse earnings base, moving away from almost complete reliance on palm oil and the vagaries of crude palm oil price. We sought to capitalise on clear opportunities in the domestic market and to tap into the tremendous potential within our own circular economy.

Our focus was creating value. The operational turnaround had given us the essential springboard from which the Group could launch new plans that would eventually offset the annual RM248 million payment we had never failed to make to FELDA under the LLA.

Filling domestic demand

The decision to move into integrated farming and alternative crops was an easy one to make. There were obvious synergies as we already had the land and the know how to expand beyond palm oil and rubber, within the agri sector. Also, domestic demand for food items such as dairy and fruits at national level has contributed to an annual food import bill of about RM51.46 billion. Hence, we realised that the opportunities in import substitution are tremendous.

By 2025 FGV expects this new sector to contribute RM1.7 billion to revenue.

While the potential for growth in this sector is obvious, success is not guaranteed unless close attention is paid to execution – on the ground, in distribution and in the marketing of the products. This is not yet a core strength in FGV, but with the right strategies in place and the right team, I am certain the team will find success.

The circular economy

This was another easy decision to make. There are several opportunities within the palm oil value to turn “waste to wealth”. Some of the areas we are looking at include:

- We have ventured into renewable energy sourced from the capture of methane at our mills. We are targeting about RM14 million of revenue from the selling of electric power to Tenaga Nasional Berhad (TNB).

- Our animal feed business is a growing business that uses palm by products to make high quality feed. There is potential to utilise existing by-products to venture into animal feed, but more study is required on the technical and business viability.

- We are looking at using palm waste to venture in sustainable packaging which is still at its initial stage.

Many of these projects are still in their early stages of design or implementation. In time they will certainly offer FGV a more diverse earnings base.

Conclusion

When I accepted the job as Chairman of FGV, the then Prime Minister agreed that I would be allowed to get the job done without any external pressures or interference. Three and a half years later, I am leaving this job with that promise still very much intact.

I am also pleased to be leaving FGV in a much improved financial and operational position, with a strong management team in place. FGV has all the potential to become a great company, which I have no doubt it will achieve with the right leadership in place.

As there is still much to be done and even more to be achieved, I wish the incoming chairman, Dato' Dzulkifli Abd Wahab, and all my colleagues in FGV the very best.

Thank you.

Azhar Abdul Hamid

31st March 2021