Chairman’s Second Letter to Shareholders

To the Shareholders of FGV Holdings Berhad:

Five months ago, I penned my first letter to you and made a commitment to transparency and timely disclosure. At the time, there were several changes afoot across the Group and we were in the process of filling vacancies at the highest levels in management.

Today, most of the senior positions have been filled, led by FGV’s new Group Chief Executive Officer Dato’ Haris Fadzilah Hassan, who was appointed on 23 January 2019. The new team was selected because of their track record, qualifications and capabilities, and because they have the right values and beliefs to take FGV forward. These are qualities we intend to inculcate and entrench, both at leadership level and across the FGV Group.

The Transformation Office has also been hard at work on the operational turnaround. However, the team has been kept on its toes, seeking solutions for new issues that crop up from time to time. FGV is also working to address the issues raised by the Roundtable on Sustainable Palm Oil (RSPO) several months ago.

While our management is striving to fix the issues of the past, we are also working on a strategic plan to allow FGV to realise its full potential. These words, “realise its full potential” describe in very broad brushstrokes, some of the work and thinking that is ongoing.

For instance, as you all know, FGV has a total landbank of 439,725 ha, of which around 351,000 ha is leased from Federal Land Development Authority (“FELDA”), or the FELDA under a Land Lease Agreement (LLA). FGV has committed to paying FELDA RM248 million a year to lease this land, of which around 291,000 ha is planted with oil palm. This means, that if FGV is to mitigate the impact of the annual RM248 million cash outflow, we have to do more with the land. We cannot depend solely on earnings from crude palm oil (CPO) sales and remain helpless in the face of price fluctuations.

FGV is also fully aware of the plight of the smallholders and third parties who produce two-thirds of the fruits we process. In an environment of low CPO price, these small farmers suffer more than anyone else.

Thus, our current strategic review started with taking a step back to consider all our options. The questions we ask ourselves every day are, “How can we generate more value from the same assets?” and, “How can we do things differently and better?”

Naturally, oil palm, which has been our mainstay for decades, will continue to play an important role in the future. However, even in this area, we are reviewing our current positioning. We cannot continue to be price takers, always at the mercy of international commodity pricing. Instead, we have to look at how we can create more value with the product we produce in such abundance.

I expect that by the end of this year, FGV would have made key announcements to the market to paint a clear picture of the way forward. I am excited by the prospects and opportunities that lie ahead. We will of course tread cautiously, mindful always of our mandate to create value for all our shareholders.

Another area we are studying closely is the Downstream Cluster. There is tremendous potential in this area and much room for growth. I am of the view that with the current leadership in place, FGV will be able to make the strategic shift to become a major player in this sector.

Update on the Journey towards Transformation

1. **Operational improvement**

When FGV announced its first quarter results in May, I was disappointed that we did not post a profit.

However, behind the bottomline numbers, it was clear that there are signs of operational improvement.

Items	**Q1 2019**	**Q1 2018**
FFB Production (‘000 MT)	1,056	991
FFB Yield (MT/Ha) *	4.38	3.96
OER (%)	20.76	19.75
CPO Production (‘000 MT)	762	669
Avg. CPO Cost ex-mill (RM/MT)	1,379	1,728
Utilisation Factor (%)	72	66

**yield based on normalised mature area*

The fact of the matter is, CPO prices in Q1 2019 were 20% lower than in the previous corresponding quarter, and that affected our financial performance.

Operationally speaking, we are on track to achieve the targets that were set at the beginning of this year.

Items	Target	Position as at May 2019	Status
FFB Production	4.79 mil MT	1.82 mil MT	On track
FFB Yield	19.43 MT/ha	6.35 MT/ha	On track
CPO cost (ex-mill)	RM 1,469/MT	RM 1,482/MT	On track
Procurement Savings	RM 150 mil	RM 60.7 mil (40.5% of target) identified cost savings through cost control and rationalization exercise	On track

We are also working to reduce the funding for long term capital expenditure using short term financing. This will result in more effective capital management. We have also put greater emphasis on improving FGV's working capital through better collection of trade debts, tighter credit terms and reducing inventory turnover days.

2. **Addressing past legacy issues**

The commitment to replant 15,000 ha of our palm trees every year is pretty much on track.

We are also taking steps, both commercial and legal, to address other legacy issues.

These include ongoing legal actions and forensic investigations into several acquisitions and investments. Forensic investigations into several other investments are still ongoing, due to the expanded scope of investigations.

The new leadership has also been addressing FGV's procurement spend. A key performance indicator for the entire organisation is now centred around cost management with a focus on managing budgets and improving procurement processes. The past months saw an accelerated cost management approach to generate more savings, specifically in initiatives to aggregate volume and in the negotiation of supplier contracts, which will contribute to the company's long term profitability and sustainability. This is especially critical in light of material changes in market conditions.

A total of 42 key procurement initiatives have been registered and tracked in Q1 2019. To-date, the programme has registered 97.6% completion rate with estimated savings of nearly RM32.7 million for the quarter, of which 18.4% is in CAPEX savings and 14.7% in OPEX savings against the budget. One of the key initiatives was our spend on fertilisers where we recorded a cost savings of 17.9%, resulting from rationalisation efforts and price negotiations. Structural changes to centralise and consolidate procurement functions across the company have also contributed to increased process efficiencies and speed to market.

3. **Review of organisational structures, non-core assets and under-performing joint ventures**

These reviews for the potential disposal of non-core assets are ongoing and your Board has already made decisions on the best way forward in most areas. We will make the necessary announcements at the appropriate time. | will add that we are on track to realise the value of these assets. We have signed one SPA early this month, and other transactions are in advanced negotiations.

We are also in discussions with JV partners to review the commercial terms of existing agreements or the potential for divestments, in order to turnaround and maximise investment returns, ultimately reaching a win-win situation for both parties.

4. **Culture change and human resource planning**

When hiring people, we always look for capability, experience and integrity. However, there are three other qualities that are important for any organisation to succeed: diversity, teamwork and the right attitude to work.

Over the last several months, we have brought in new leadership to fill senior positions in the Group. Other than the Group Chief Executive Officer, we have a new Group Chief Financial Officer, Group Procurement Officer, Head of Group Sustainability, and the Head of Trading. At the same time, we have promoted a number of internal talent to fill in key positions, such as the Head of Downstream, Chief Executive Officer of Delima Oil Products Sdn Bhd, and Deputy Chief Executive Officer of FGV Palm Industries Sdn Bhd. All these leaders have been charged with driving change to create a high-performance culture.

In January 2019, I said that change can be both cathartic and uncomfortable. Very frankly, over the last several months, we have witnessed a whole range of reactions to the very idea of change in FGV.

There are those who welcome the prospect of change and are anxious to see improvements quickly. They are ready to contribute and are eager to step up to the plate. I am pleased that many of these are young people, who will no doubt one day become the kind of leaders FGV will need.

On the opposite end of the spectrum, there are others who are resistant to change, digging their heels in, or trying to "avoid detection". It is understandable that they are afraid of uncertainty, that they are unwilling to step out of their comfort zones to challenge themselves. We have had to take a hard line. There is no room for non-performers and for anyone who cannot or will not work for the betterment of FGV.

5. **The Land Lease Agreement (LLA) and FELDA's White Paper**

After the tabling of FELDA's White Paper in April this year, it has been business as usual at FGV. We are focused on improving operational performance and ensuring that we create as much value as possible.

There was some residual uncertainty surrounding FELDA's intentions vis-a-vis the LLA. However, we have reviewed the situation and we are confident that even if FGV's other shareholders do agree to give the land back to FELDA for a suitable compensation, FGV will remain on track to become a high performing company. There are several reasons for this, the three main ones being:

> (i) FGV owns all its mills and refineries, as they are not part of the LLA agreement and would remain with FGV. All our mills and refineries are strategically proximate with the land under LLA. This means that for logistical and economic reasons, fresh fruit bunches (FFB) from the land under LLA would still have to be processed at FGV's mills.
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> (ii) Two thirds of the FFB processed in FGV's mills are sourced from independent third parties and smallholders, including Felda settlers. Thus, consistency of supply is secure.

Additionally, the biggest cost components for FGV today are in its upstream operations, with staff costs amounting to RM998 million (which accounts for 61% of the total staff cost of the Group), RM248 million fixed fee for the land under LLA and around RM300 million replanting cost.

> (iii) FGV's current plans to develop its downstream businesses can be accelerated and scaled up, allowing us to take a leaf from other, much bigger and more successful companies which have chosen to focus on downstream activities. This is

a step we are prepared to take, should the need arise.

Thus, as your Chairman, I can tell you that we have studied all options and we are confident of FGV's way forward.

6. **RSPO issues**

FGV's Serting Estates were subject to RSPO's investigations due to accusations of labour abuses and human rights violations. RSPO published its report on 28 November 2018.

Since then, FGV has submitted an action plan to the RSPO, detailing our plans to correct the mistakes and to rectify the situation in Serting and where applicable, across the Group's operations. The RSPO has informed us that they will conduct another audit in Serting to verify our efforts, after which we are hopeful that the suspension on the estate will be lifted. In the meantime, we are working to ensure that our commitment to sustainable development is reinforced and implemented across the Group's operations. This is something we take very seriously and we will continue to monitor the situation closely.

Over the next few months, as corrective and transformational measures take root, FGV will start the process of reshaping itself to meet the challenges of a more competitive world. We will use our inherent strengths to our advantage, we will build or acquire capacity where we need it and we will remain focused at all times on creating value.

Thank you.

Azhar Abdul Hamid

21st June, 2019