Chairman's Third Letter to Shareholders

To the shareholders of FGV Holdings Berhad:

As 2020 dawns with expectations of higher commodity prices in a persistently uncertain operating environment, I look back on an eventful 2019 for FGV with a combination of pride and frustration.

Indeed, I am proud of the gargantuan effort to turn FGV around, with many colleagues working tirelessly over the last 15 months to deliver results. However, just as there were those who showed their true mettle during such a challenging period, there were others who disappointed. These few failed to be stirred out of their comfort zones, adding to the frustration of low commodity prices and markets that were stacked against us for most of 2019. Your Board is certainly aware of the next steps that must be taken to ensure that FGV is supported by the right people to take it forward.

Over the last twelve months we have achieved many successes, mainly in the Plantations Sector. Thousands of men and women worked hard to put our estates back on track. These FGV employees have done us proud and proven that with the right attitude, with commitment and teamwork, anything is possible.

Unfortunately, their efforts have not translated into a corresponding improvement in the bottom line, as crude palm oil (CPO) price remained frustratingly low for most of the year and FGV's business transformation continued to unearth legacy issues. As a result, your Board was unable to reward shareholders with dividends for FY2018. This is a completely unsatisfactory state of affairs, one I am eager to rectify, even though we all knew that this turnaround would take considerable time and effort to re-set the whole organisation. We also knew that the transformation would involve far more than just a cleanup of questionable investments, which have not only cost us billions of ringgit, but are now taking up considerable management time and attention as we plough through legal processes to protect the interests of our shareholders.

The good news is, I believe the worst is behind us and that FGV is definitely on the right path towards a new and far better future. There are still a couple of lingering challenges with our subsidiary, MSM Malaysia Holdings Berhad, but there are plans underway to address each and every one of them, sooner rather than later.

Meanwhile, the recent upturn in CPO price certainly provides a welcome respite to the palm oil sector as a whole. While this is definitely a strong positive for FGV, your Board intends to use this opportunity to build more a more resilient FGV and to transform it into an organisation that is not wholly dependent on CPO price for its performance.

In the future, FGV will be repositioned as a major player in the agriculture and food industries. While palm oil will remain a mainstay of our business, we will also deliberately and carefully redeploy appropriate resources into higher value and synergistic sectors to mitigate against the risk of CPO price fluctuations.

As we take this important step forward, FGV will make sure that this strategic diversification benefits all our stakeholders, especially the 112,635 smallholders whom we regard as our partners and with whom we have a symbiotic relationship.

You may be aware that FGV buys two thirds of its fresh fruit bunches (FFB) from FELDA scheme smallholders and independent smallholders. Thus, they are an integral part of our supply chain. We provide these farmers with that all-important link to international markets and we ensure that they are paid fair market rates in accordance with international prices. With CPO price on the uptrend, the future certainly looks brighter for them. However, just as we are future proofing FGV, we hope to be able to help all our partners to secure their futures too.

This link with our farmers will only get stronger as we introduce our plans to them and help them improve their productivity, both for palm oil and also in all other areas. We are certainly looking forward to these new ventures as FGV shares the Government's vision for shared prosperity. We believe that if our farmers are doing well, our supply chain will be all the healthier for it.

The year in review

1. The remarkable operational transformation

Items	**2019 Target**	**Position as at November 2019**	**Position as at November 2018**
FFB Production	4.79 mil MT	4.17 mill MT	3.83 mill MT
FFB Yield	19.43 MT/ha	17.28 MT/ha	15.36 MT/ha
CPO cost (ex-mill)	RM 1,469/MT	RM 1,461/MT	RM 1,818/MT

The table above captures the tremendous success of the Plantations team. Although we did not meet all the targets that were set, at the time we set them, I knew they were aggressive. I also knew that to meet all our targets, every variable, both within and beyond our control, would have to be in our favour. Thus, I applaud each and every member of the team that worked to deliver this important turnaround for FGV.

2. Sustainability

FGV started 2019 under a cloud with our social license to operate under challenge. If you recall, in late 2018 and in mid-2019, FGV's labour and human rights track record was brought into question. Several of our business partners expressed concern and some suspended their business relationships with us. That is how bad it became.

However, over the last nine months, FGV has taken several steps to ensure that our commitment to sustainable development is reinforced and implemented across the Group's operations. As a result, the Roundtable on Sustainable Palm Oil (RSPO) lifted its certification suspension of our Serting Complex on 5th August 2019. There are many who worked long and hard to make this a reality and I applaud their commitment.

Some of the key steps we have taken over the last several months include:

(i) Expanding the scope of the Sustainability Department to cover the whole Group, reporting to the Group Chief Executive Officer.

(ii) Establishing FGV's Independent Advisory Panel for its Board. This was approved by the Board in November 2019 and we expect to announce the members of this Panel in the next few weeks.

(iii) Strategic alliances and collaborations with reputable and independent organisations to give FGV the necessary insights and support we need. Some of the alliances are listed below:

- **Affiliation with the Fair Labor Association (FLA)** in October 2019. The FLA is an international association of socially responsible companies, universities and civil society organisations aiming to promote and protect the human rights of workers and improve working conditions worldwide. This affiliation will help to ensure that all our practices are fully in line with international labour standards. It will involve implementing a long-term programme to address and resolve gaps in FGV's labour practices, as well as in our supply chain, which of course includes our smallholder partners.
- **FGV-IOM-Earthworm Foundation Tripartite Partnership.** In November 2019, FGV established a tripartite partnership with the International Organization for Migration (IOM) and Earthworm Foundation on a labour supply mapping project. The findings of this project will contribute to the strengthening of FGV's process of recruiting foreign workers, and the formulation of better legislation and policies relating to labour migration.

- **Collaboration with SUHAKAM or the Malaysian Human Rights Commission** to conduct audits and verifications on the working and living conditions of workers at FGV's mills and plantations.

(iv) Other measures taken include:

- revising, updating, and strengthening the Group Sustainability Policy;
- ensuring that Employment Contracts and communication packs for foreign workers are explained, translated, and understandable;
- new Supplier Code of Conduct which requires all of our suppliers and contractors to commit to FGV's principles and standards;
- new guidelines and procedures for the responsible recruitment of foreign workers; and
- revised contract with recruitment agencies which include clear provisions to protect workers, and to ensure that no fees are charged to the foreign workers throughout the recruitment process.

(v) **Regularisation of Undocumented Workers.** In April 2019, the Sabah State Government introduced a programme that would allow undocumented migrant workers in Sabah to apply for regularisation. In relation to this, and in keeping with our commitment to phase out engaging labour contractors, FGV has invited those undocumented workers from contractors to join our workforce. The application for regularisation is facilitated by FGV and we are also covering the fees involved in the regularisation process. Below is the status update on this exercise:

- Number of applications submitted: 7244
- Number of workers who have received passports by the Indonesian or Philippine authorities: 5211
- Number of workers who have submitted application for biometric verification: 3458
- Number of workers whose compounds have been paid: 1044

We are committed to complete the regularisation exercise by end of July 2020.

(vi) **Traceability and Risk Mapping.** FGV has introduced a traceability and risk mapping programme to ensure that our customers are assured of the provenance of the oil that we produce. The programme also includes measures to support suppliers who have not yet complied with FGV's policies and standards to enable them to comply with our requirements.

3. <u>Culture change and human resource planning</u>

In our efforts to ensure that the Group's human capital requirements are met, FGV had put in place several initiatives including training, reskilling, and restructuring of remuneration packages, as well as rightsizing to meet the needs of the businesses.

At the beginning of the year, our manpower cost was at RM1.2 billion per annum, of which 55% is for fixed pay while the remaining 45% is for variable pay (overtime allowances, medical, travel, entertainment etc). We had set a target to reduce manpower cost by 10% annually for the next three years, in recognition of the fact that the variable component of pay was unusually high.

As at September 2019, we have reduced our manpower numbers from 18,742 to 17,146 (8.5%).

There is still some way to go to rightsize FGV's manpower cost, but we have the right people in place to make sure this is achieved.

The change in culture too is happening – slower than I would like, admittedly, but still it is heartening to be able to see some change. Today, there is a far greater sense of accountability and awareness of integrity and governance.

It is also important to give a shout out to the Governance and Risk Management team at FGV for pushing this cause forward. In December 2019, FGV received the internationally recognized ISO37001:2016 certification for its Anti Bribery Management System (AMBS). We were acknowledged as the first company to comprehensively roll out the ABMS across the group. We decided early on that we would take it beyond the Governance and Procurement Departments and ensure that every employee would receive the necessary training.

4. Procurement Savings and Disposal of non-core assets

Another area we had identified where there were several leaks to plug was in procurement. Thus far, the team has done a good job to reduce cost.

The question I often get asked is whether or not these savings are sustainable, or if we will see a sudden increase in cost in 2020. The short answer is, yes, the savings are sustainable as the bulk of the savings come from improved processes and negotiation strategies.

	Target	**Position as at November 2019**
Procurement savings	RM150 million	Between RM155 to RM170 million
Disposal of non-core assets and under-performing joint ventures	RM350 million	RM 129 million

When it comes to the disposal of non-core assets, I am unable to reveal any details at this time. I will say this much, there are several ongoing discussions and we will make the necessary announcements at the right time.

The way forward

In my last letter to you, I had alluded to the development of new strategies to reset FGV and ensure that we maximise the potential of our landbank. This is absolutely critical if we are to thrive in the future and earn the kind of returns shareholders expect of us.

As you are aware, FGV has a total landbank of 439,725 ha, of which around 351,000 ha is leased from FELDA, or the Federal Land Development Authority under a Land Lease Agreement (LLA).

FGV has committed to paying FELDA RM248 million a year to lease this land, a commitment we have met every year. As a result, to remain competitive with our peers in the sector, FGV needs to earn more from each acre than the others – a cumulative RM248 million a year at least. And that is the target we have set for ourselves.

Your Board and Management spent several months fine tuning a three-pronged strategy, namely:

- restore our palm oil businesses which are and will remain our mainstay;
- develop new earning streams from the circular economy to create value, the potential for which we have been ignoring till now; and
- to identify adjacencies to existing revenue streams to optimize returns.

While our efforts to restore our palm oil business are well documented, the next two areas are creating excitement within the company which I have not seen before.

The circular economy

There is much that can be done in this area to generate value where we were once ignoring the potential. One example is animal feed. Over the last 12 months, we have doubled our sales volume, revenue and sales margin.

Year	Production	Revenue	Sales Margin
2019	21,652 MT	RM9,927,712	RM61.76 / MT
2018	10,182 MT	RM5,633,650	RM34.42 / MT

In the past, 97% of our palm kernel expeller (PKE) which is an ingredient for the formulation of animal feed was sold and exported as raw materials at a very low price to feed manufacturers. Now, we have appointed an animal nutrition specialist to add value to the products and increase margins from 3-5% to more than 10%. The target for 2020 is to achieve 50,000 MT of feed production and to launch two new premium feed formulation for Dairy Cattle.

Another example in this area is biogas, where we are now tapping into the potential of the renewable energy sector. FGV's Renewable Energy division had turned around the low profit-making business to achieving a profit of RM46 million on a revenue of RM108 million in 2018, with a slight improvement in 2019. We are aiming to reach an annual revenue of around RM200 – RM300 million, by further unlocking the value of waste that we produce as part of our daily milling processes.

Adjacencies

The third prong of our strategy is to move into adjacencies that will optimize the value of our assets. For instance, the land that we own or manage, is today dedicated almost entirely to the cultivation of oil palm. This does not have to be the case.

Thus, we have now identified other agricultural revenue streams, which include the following:

- Tropical fruits;
- Animal nutrition;
- Dairy & livestock; and
- Paddy cultivation.

We estimate that the investment required is manageable, but the potential gains are tremendous.

Again, I will contain my excitement and allow our next steps to be revealed in due course. The assurance you will get from me is, every plan has been challenged and scrutinized thoroughly, and there is no reason why FGV cannot succeed in all of these ventures.

Finally, I would like to take this opportunity to thank all members of FGV's Board, all of whom have remained steadfast and dedicated to our common cause, which is a better and brighter future for FGV.

I would also like to thank all Management and Staff, who in the face of extreme challenges, rose to the occasion and did their best, meeting and even surpassing expectations. I am glad that there are many more of them than there are detractors and naysayers.

Dear Shareholders, my final vote of thanks is to you for supporting us and allowing us the room to do what we had to. It is my fervent hope that FGV will be able to deliver the turnaround we promised this year, allowing us to give you reasonable and sustainable returns.

Thank you.

Datuk Wira Azhar Abdul Hamid

8th January, 2020