# Clarification Letter on The Edge report – 19th June 2015

**The Edge Review**

FGV notes with concern the article written by Leslie Lopez appearing in The Edge Review and published in The Malaysian Insider on 19th June 2015.

FGV is a listed entity on the Bursa Malaysia and has a Corporate Communications, as well as an Investor Relations unit that would have been able to provide a response to Mr. Lopez should he have contacted us for clarification or comment. Even more disappointing was the preference to quote anonymous "portfolio investors and bankers" to get a biased story.

*Allow us put things into context, and state the facts, as the writer may have missed these in his haste to get his views across.*

1. Palm Oil prices and commodities in general, have taken a beating since 2014, retreating from a high of USD865 p/mt in Jan 2014 to USD688 p/mt in Jan 2015

2. FGV's revenue is made up of 70% Palm Oil commodity trading and 30% downstream ventures. When there is downward pressure on Palm Oil prices, FGV's revenue will face equal pressure. Coupled with an unfortunate confluence of factors last year – including floods in the east coast that severely affected our production, and extreme ice conditions at our crushing mill in Canada – FGV posted lower than expected profits. This is something that happens in doing business – unexpected events – and we have accounted for it in our results.

3. The above also points to the critical need for deliberate acceleration of our strategic transformation plan to move towards rebalancing our revenue streams to 60% palm oil trading and 40% downstream business.

4. FGV's current average age profile of our planted hectarage is 15.5 years, putting it at the matured and aging end of the spectrum.

5. Additionally, out of the 450,000 hectares under FGV's management, 355,864 are subject to the Land Lease Agreement (LLA) with FELDA, pushing up our operating costs.

6. To secure long-term sustainability and viability of our business, FGV needs more landbank and planted hectarage with a younger age-profile. Crude Palm Oil prices are at an historic low and are expected to rebound to an uptrend over the very near term. We must be prepared to take advantage of that with lower cost of production, higher volumes, better efficiencies and margin and strategic positioning to leverage the downstream business.

7. We have been looking outside of Malaysia for some time, including Africa, Myanmar and Indonesia. The Eagle High Plantation (EHP) landbank presents the largest contiguous landbank, from a single vendor that is also an unparalleled strategic fit.

8. It is important to note that the proposed implied EV (Equity Value) / ha for the planted hectarage of EHP is approximately US$17,400 per hectare – lower than the recent transactions involving Sime and NBPOL (EV / hectare of US$25,900) and Unico Plantations (EV / hectare of US$23,500). In comparing with recent Indonesian transactions, hectarages involved are small in nature, of less than 70,000 hectares.

9. Further, the valuations quoted by the writer for domestic Indonesian plantations does not make reference to the location, size and age profile of the landbank.

10. FGV has explained the reasons for the lower revenues and commits to implementing the transformation plan to ensure higher profitability for the company. Remember – although revenues have dropped in Q1, we are a profitable company and our transformation strategy is focused on delivering higher returns to shareholders over time.

11. In a depressed market and current low share price that does not reflect the intrinsic value of the company, the management is focused on the medium to long term view, putting into place our three-pronged strategy of revenue enhancement, cost optimisation and operational excellence to boost revenues and margins, which will result in higher shareholder value. Again to imply that we are paying a premium to the CURRENT share price is simplistic and exhibits a clear lack of understanding by the writer on deal valuations.

12. To buy from the open market, you need a large enough block available, and even so, prices will be pushed up if we try to acquire what is available. More importantly – it discounts the unparalleled strategic fit for FGV and Malaysia in obtaining access to the Indonesian downstream market, sugar market, fertilizer market and 240 million consumer market that this partnership with the third largest Indonesian conglomerate offers.

13. Indonesia is ‘serumpun’ and we are happy to have a known quantity as a partner, the third largest diversified conglomerate in Indonesia, which has also exhibited trust in FGV by agreeing to a 2.55% stake in the enlarged share capital of FGV once the transaction is completed.

14. We have not made an announcement of the financing mechanism yet, so it is puzzling how the writer got this assumption. FGV is currently discussing the funding structure with our Investment bankers to get the best deal possible for our shareholders.

15. It is also important to note that should we go for an all debt structure, our gearing will only go to 1:1, which is very reasonable for a high-growth palm oil plantation company.

16. FGV wants to reiterate that its dividend policy will remain unchanged and will be an important consideration in the structure of the funding.

17. The 37% will result in FGV becoming the single largest shareholder with representation on the board. We are pleased to have the local parties to continue to run the company with our input, as there is continuity and great expertise in the local team. To suggest otherwise is a folly.

18. FGV is not looking for majority control as it will trigger a MTO that will not prove to be viable.

19. FGV emphasizes the deposit paid is interest-bearing and fully-refundable pending the results of the due diligence and final decision of the board. The quantum of the deposit is merely a gesture of our firm commitment to the transaction and in return for exclusivity during the negotiation period. It is mischievous to suggest anything else.

20. In the final analysis – this is a purely commercial transaction, which will result in the making of an ASEAN palm oil giant, a global game-changer with clear benefits for both countries and companies.

21. Political innuendos and references to other GLCs and personal relationships are unnecessary and take away from the fact that this transaction will be a gamechanger for the palm oil industry globally and FGV will be firmly on its way achieving the goals as set out in its transformation plan, on track and on time.

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**Star Bizweek**

FGV notes the publication of two articles in Star Bizweek dated Saturday, 20 June on Page 6 (Eagle High Anxiety) and Page 14 (Why Felda is under fire for Rajawali deal)

*Allow us put things into context, and state the facts as it relates to points raised in both articles.*

1. Palm Oil prices and commodities in general, have taken a beating since 2014, retreating from a high of USD865 p/mt in Jan 2014 to USD688 p/mt in Jan 2015. It is currently trading at a 5-year low, brought about by weaker demand from China, India and EU, and a global oversupply of crude Palm Oil.

2. FGV's revenue is made up of 70% Palm Oil commodity trading and 30% downstream ventures. When there is downward pressure on Palm Oil prices, FGV's revenue will face equal pressure. Coupled with an unfortunate confluence of factors last year – including

floods in the east coast that severely affected our production, and extreme ice conditions at our crushing mill in Canada – FGV posted lower than expected profits. This is something that happens in doing business – unexpected events – and we have accounted for it in our results.

3. The above also points to the critical need for deliberate acceleration of our strategic transformation plan to move towards rebalancing our revenue streams to 60% palm oil trading and 40% downstream business.

4. FGV's current average age profile of our planted hectarage is 15.5 years, putting it at the matured and aging end of the spectrum.

5. Additionally, out of the 450,000 hectares under FGV's management, 355,864 are subject to the Land Lease Agreement (LLA) with FELDA, pushing up our operating costs.

6. To secure long-term sustainability and viability of our business, FGV needs more land bank and planted hectarage with a younger age-profile. Crude Palm Oil prices are at an historic low and are expected to rebound to an uptrend over the very near term. We must be prepared to take advantage of that with lower cost of production, higher volumes, better efficiencies and margin and strategic positioning to leverage the downstream business.

7. To this point, FGV's wholly-owned subsidiary FGV Trading showed impressive growth with a revenue of RM2.5bil in just 4 months of trading operations. It is targeting a revenue of between RM6bil and RM8bil this year.

8. We have been looking outside of Malaysia for some time, including Africa, Myanmar and Indonesia. The Eagle High Plantation (EHP) land bank presents the largest contiguous land bank from a single vendor, that is also an unparalleled strategic fit.

9. It is important to note that the proposed implied EV (Equity Value) / ha for the planted hectarage of EHP is approximately US$17,400 per hectare – lower than the recent transactions involving Sime and NBPOL (EV / hectare of US$25,900) and Unico Plantations (EV / hectare of US$23,500). In comparing with recent Indonesian transactions, hectarages involved are small in nature, of less than 70,000 hectares.

10. Further, the valuations for domestic Indonesian plantations do not fully take into account the location, size and age profile of the land bank.

11. FGV has explained the reasons for the lower revenues and commits to implementing the transformation plan to ensure higher profitability for the company. Remember – although revenues have dropped in Q1, we are a profitable company and our transformation strategy is focused on delivering higher returns to shareholders over the course of this year and beyond.

12. In a depressed market and current low share price that does not reflect the intrinsic value of the company, the management is focused on the medium to long term view, putting into place our three-pronged strategy of revenue enhancement, cost optimisation and operational excellence to boost revenues and margins, which will result in higher shareholder value. Just on ONE line item – procurement of ball bearings – we have managed to save RM4 million. FGV has targeted RM100mil in savings through cost-optimisation.

13. Again to imply that we are paying a premium to the CURRENT share price is simplistic. We would welcome suggestions as to where else a transaction such as this in terms of land size, strategic and synergistic fit for products and market access is available at these valuations.

14. To buy from the open market, you need a large enough block available, and even so, prices will be pushed up if we try to acquire what is available. More importantly – it discounts the unparalleled strategic fit for FGV and Malaysia in obtaining access to the Indonesian downstream market, sugar market, fertilizer market and 240 million consumer market that this partnership with the third largest Indonesian conglomerate offers.

15. Indonesia is 'serumpun' and we are happy to have a known quantity as a partner, the third largest diversified conglomerate in Indonesia, which has also exhibited trust in FGV by agreeing to a 2.55% stake in the enlarged share capital of FGV once the transaction is completed. (Is there a moratorium on Rajawali selling the shares?)

16. Overcoming regulatory challenges and obtaining stable and strong management expertise is the benefit FGV is be getting from this partnership with Rajawali

17. FGV is currently discussing the funding structure with our Investment bankers to get the best deal possible for our shareholders.

18. Our cash flow is getting better, supported by the cost efficiencies and higher contribution from the trading and downstream business. The divestment strategy of non-core assets is also expected to free up cash flow and support the plantation business.

19. It is also important to note that should we go for an all debt structure, our gearing will only go to 1:1, which is very reasonable for a high-growth palm oil plantation company.

20. FGV wants to reiterate that its dividend policy will remain unchanged and will be an important consideration in the structure of the funding.

21. The 37% will result in FGV becoming the single largest shareholder with representation on the board. We are pleased to have the local parties to continue to run the company with our input, as there is continuity and great expertise in the local team. To suggest otherwise is a folly.

22. FGV is not looking for majority control as it will trigger a MTO that will not prove to be viable.

23. FGV emphasizes the deposit paid is interest-bearing and fully-refundable pending the results of the due diligence and final decision of the board. The quantum of the deposit is merely a gesture of our firm commitment to the transaction and in return for exclusivity during the negotiation period. It is mischievous to suggest anything else.

24. In the final analysis – this is a purely commercial transaction, which will result in the making of an ASEAN palm oil giant, a global game-changer with clear benefits for both countries and companies.

25. FGV is confident this transaction will be a game-changer for the palm oil industry globally and FGV will be firmly on its way achieving the goals as set out in its transformation plan, on track and on time.