

# FGV Chairman's Fourth Letter to Shareholders

To the shareholders of FGV Holdings Berhad,

In January when I wrote my last letter to you, there was no inkling of what lay ahead of us and I was upbeat on FGV's prospects. Our team had risen to the challenge and shown their true mettle. Our results were starting to show, productivity was up and we were well on our way to becoming the company we want to be, a high performing company.

We had already put in place plans to diversify our revenue base from the plantation sector, from 82% dependence on palm oil, by introducing a new strategic pillar – integrated farming and renewables. Under integrated farming, we had identified complementary food crops and dairy farming for contract farmers and for FGV to optimize its own land use planning. Under renewables we had identified energy, animal feed and paper products as revenue streams, each allowing us to capitalize on the lucrative palm based circular economy, to maximise value creation efforts.

*If these were normal times, I would have had the pleasure of writing this to you in June, reporting the growing importance of our dairy business, not just for FGV, but also for Malaysia. We had decided to take advantage of Government efforts to reduce the country's food import bill. Yes, we were looking at import substitution. Our target was the ready domestic market that had for years been dependent on expensive imports.*

*Also, I would have introduced our new animal feed brand. This is a business we have been in for a number of years, so we know what we need to do, we know who our customers are, and we know who our competitors are. The potential in this area is tremendous and we are poised to tap into it.*

*And finally, I would have asked if you had noticed a new brand of fresh produce in the supermarkets, a brand that belongs to us, a brand of premium, high quality products. Each product under this brand would have been subjected to the strictest quality control measures, enforced by an ace FGV team. Our artisanal farmers would have worked with us to ensure food safety and quality, which are to be the hallmarks of our brand. We would produce, here in Malaysia, food that would meet the most stringent international standards, for our domestic market and also for export.*

However, things have changed.

Today, as I write this, the Covid-19 pandemic has caused disruptions last seen during the two world wars and the Great Depression. In Malaysia, we have been living and operating

under a movement control order for nearly a month and a half. Across the world, over 200,000 people have died and more than a third of the global population is living under lockdowns of some sort. The global economy is fracturing, supply chains and distribution channels are choking up and demand has collapsed bringing prices down with it.

To say that the situation is uncertain or challenging, or even both, would be to downplay the severity of the impact, and more critically, the potential aftermath, of the near global shut down we are in the middle of.

FGV, with 50,000 employees and plantation workers, more than 150,000 small farmers in our supply chain and plugged into the global markets as we are, has not been spared.

#### Performance in 1H2020

In the first quarter of this year, crude palm oil (CPO) production was adversely affected, particularly in Sabah, due to a number of factors, including dry weather from August to October in 2018 and again in Q1 and Q3 of 2019. Lower prices through most of 2019 also affected overall smallholder productivity. In 1Q2020, total CPO production was about 30% lower than the previous year, while at national level, production declined by about 20%.

January and February were the toughest months, but as the trend started correcting in March, the impact of the Covid-19 pandemic affected operations and productivity, again more in Sabah than elsewhere. In Sabah, FGV closed five mills in March and April, purely as a precautionary measure and to ensure the well-being of those employees who would need to come into contact with outsiders. All our other mills throughout the country continued to operate albeit with reduced manpower.

Going forward, as production picks up, the industry will be looking to traditional markets to assess the impact on demand as a result of the pandemic.

While most analysts are bearish on the sector in the shorter term, the expectations are that the longer term outlook for the traditional uses of palm will stabilize. Questions will remain on the biodiesel sector, though FGV's exposure in this area is minimal, with 2.6 % of total production used for biodiesel in 2019.

	Actual	
	Q1 2020	Q1 2019
<b>FFB Production ('000 MT)</b>	712	1,055
<b>OER (%)</b>	20.10	20.76

<b>CPO Production ('000 MT)</b>	514	762
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In April, we saw CPO production pick up compared to January and February 2020, but disruptions from the pandemic continued to affect productivity. For 2Q 2020, we expect a significant improvement against 1Q2020, as the impact of historically poor weather abates. However, the impact on demand remains uncertain as several traditional markets remain closed or partially closed at this time.

### Back to the future – beyond Covid-19

I have always believed that there are times when the best thing to do is to go back to basics.

With this in mind, I have spent the last several weeks focused on the future and the one question you would want an answer to: how will FGV come out of this crisis, whole, strong and a valuable organization for its shareholders, smallholders and the people of Malaysia?

FGV is predominantly a supplier of essential goods and services – mainly cooking oil, sugar and the logistics support needed to store and move goods around the country. In other words, FGV is already in the business of producing and providing one of the basic needs of humankind – food. However, we need to do more.

### Business focus

- We must learn to think and work differently. We must understand what our customers need and want, and how we are going to get it to them.
- We must continue to ensure that our palm oil operations perform at optimal levels. Setbacks caused by weather and unforeseen situations must be overcome as expeditiously as possible.
- We must continue to build strong relationships with customers.
- We must use our current resources differently, to extract more value.

### Supply Chain Focus

- We must ensure that smallholders are supported so, FGV can continue to successfully link them to international markets.
- We must mobilise our existing supply chain and help our smallholders to produce more than palm oil, to capitalize on domestic demand for fresh food.
- We must make sure that our logistics networks are in place, so we can become that vital lifeline connecting the farmer and the customer.

### Identify and Grow new revenue streams

- At the same time, we must expand our focus beyond oil and sugar.

- We must recognize that we are part of a dynamic region with more than 600 million people and a further 2.8 billion in China and India, within easy reach.
- We must identify ways and means to produce quality food crops for Malaysians, at more affordable prices and to help reduce the country's food import bill.
- If we need to move beyond fresh food, to canned or processed foods with longer shelf lives, we must be nimble enough to move into the space, either directly or through partnerships.
- FGV must recognize the value in everything we have and do. We must eliminate wastage and at the same time create value through doing so. The palm circular economy carries a lot of potential for organisations that are willing to think out of the box.

We have to undertake all of the above and deliver on our commitments, at the same time, efficiently, quickly, and responsibly. Having said that, we must never compromise on ethics, integrity or accountability.

The good news is, several of the measures I have described are already part of our strategic shift towards becoming a major player in the food industry. Thus, the plans are in place and steps are already being taken to move the company forward.

The bad news is, we no longer have the luxury of time to execute our plans. We have to do it now.

My commitment to you and to all our stakeholders is, your board and management will work through this crisis and the impending challenges of the post Covid-19 movement control order. We will focus on our goals and we will deliver.

Finally, I would like to take this opportunity to wish all our Muslim brethren a very blessed Ramadhan. May the Almighty guide us and deliver us from all our human challenges.

Thank you.

Azhar Abdul Hamid

30<sup>th</sup> April 2020