FGV Chairman’s Letter to Shareholders

To the Shareholders of FGV Holdings Berhad:

I am taking this unorthodox step to write directly to you because, as shareholders, and therefore the owners of FGV, you deserve timely and clear updates on your company and where we are in terms of turning it around.

Although we announced that we are in the process of implementing a Transformation Plan, we have not been able to say very much else, for three main reasons:

1. The leadership vacuum at FGV needed to be filled urgently;
2. The transformation team had spent the last few months unearthing a slew of problems. The good news is, the problems can be solved, and the better news is, we expect improved returns to start flowing to shareholders this year; and
3. FGV’s public sanction from the Roundtable on Sustainable Palm Oil (RSPO) required urgent steps to address mistakes and oversights that had not been appropriately dealt with in the past.

Six and a half years ago, FGV made its debut on Bursa Malaysia to much fanfare, the second largest IPO in the world, its shares priced at RM4.55 each, even then regarded as “aggressive” but not unreasonable. FGV raised RM4.5 billion from its listing and its largest shareholder the Federal Land Development Authority (Felda) received RM5.5 billion from the offer for sale of its stake in FGV.

Both FGV and Felda had been entrusted by the investing public with a combined RM10.0 billion to create value for them and all other stakeholders. At listing, FGV’s market capitalization was RM16.6 billion, today it is about RM3.0 billion.

As its Chairman, I will speak for FGV.

Today, your company is one of the largest producers of crude palm oil (CPO) in the world. Thus, FGV should be delivering far more value to its shareholders than it is today. I was appointed Chairman on 8 September 2017 by the Malaysian Government with only one mandate: fix FGV.

At the time, I was not fully aware of what the problems were, other than that which was already circulating in the public domain. We had all heard the stories, the business of politics and equally, the politics of business, that permeates almost every level in FGV. It took me a few months to realise just how dire the situation was, and the fact that FGV needed a transformational overhaul. The problems were manifold.

1. The operations were not effectively and efficiently managed, as evidenced by persistent poor performance. Furthermore, there are operational leakages and inefficiencies in the system that run into millions of ringgit a year. This has contributed to our poor financial performance.
2. The critical inputs required to turn around operations were a drain on already diminished resources. At listing, more than half of FGV's estates had oil palms that were unacceptably old because of decisions made before listing to reduce cost by not replanting sufficiently. This was an unwise decision that was repeated over a few years, and resulted in FGV's current sub-optimal age profile.
3. The proceeds from the listing had been whittled away and not all of it was invested wisely.
4. In certain areas, organisational structures were not beneficial to shareholders.
5. Some of our Joint Ventures (JVs) are underperforming.
6. There are non-core businesses that take up resources and time but do not offer the kinds of rewards a reasonable investor would expect.
7. The culture is not consistent with a progressive and dynamic organization; and the people were not performance centric.
8. The ongoing uncertainty over the land lease agreement (LLA) is affecting market perception and needs to be resolved immediately.
9. There are persistent rumours on the potential delisting of FGV.
10. There was confusion over the activities and businesses of Felda, Felda Investment Corp (FIC) and FGV.
11. FGV was accused of labour abuses and human rights violations by the RSPO. There were more than 40 gaps identified by the RSPO's audit team. As a company that was founded even before the the United Nation's Sustainable Development Goals (UNSDGs) were articulated, this was both unacceptable and shocking. Urgent steps were immediately taken to address the issues at hand.
12. The previous Board and management had not appropriately addressed the many issues at hand, and there was no clear solution or direction in sight.

It had become apparent that everything needed urgent attention.

I started with the Board.

Today, we have a new Board that comprises subject matter experts and professionals, who are fiercely independent and above all, strongly committed to good corporate governance, transparency and integrity.

Collectively, the new Board turned its focus on the Management team and the operational performance of FGV. By the end of the first half of 2018, the Board had identified serious capacity gaps in management that would prevent FGV from stemming the decline and turning itself around from its downhill slide.

Implementing change is never easy, imposing change is even more difficult. For a while the Board had little choice but to impose change. We always understood that eventually a new leadership would have to face the persisting operational, structural and governance challenges, own the changes that needed to be implemented and lead their teams into a better future. FGV's new management team is now almost fully in place. We have appointed a new Group Chief Financial Officer, a new Chief Procurement Officer, a new Chief Operating Officer of the Plantation Operations and a new Chief Human Resource Officer. The last appointment will be for a new Group Chief Executive Officer (GCEO), which we hope to announce in the next few days.

This new team will implement the transformation plan that we have been working on and will have the task of turning the company around, led by their Board of Directors. With this professional team in place, FGV will be able to make the changes that need to be made, make the tough decisions to cut waste and trim the fat, and start sweating our assets as they ought to be.

Many of us who are new to FGV have been involved in the plantation sector for most of our careers. We understand the plantation business. We know what to do and my promise to you is, we will do everything it takes to rebuild this company.

The Transformation Plan

FGV's transformation plan has been a work-in-progress over the last few months. While the longer-term vision and targets have been set, there are several immediate and urgent changes that are being implemented even as I write this. The problems listed above are reproduced here and I will very briefly outline some of the steps that are being taken to address them.

Over the next two-three months, the new GCEO and his management team will execute the plan and announce details when appropriate.

1. **The operations were not effectively and efficiently managed, as evidenced by persistent poor performance. Furthermore, there are operational leakages and inefficiencies in the system that run into millions of ringgit a year. This has contributed to our poor financial performance.**

Operational processes are being improved. These include improvements such as intensifying crop recovery, cost reduction in the estates, implementing mechanization and enhancements of agricultural practices.

FGV's FFB yield for 2018 is forecasted at 16.9 MT/Ha, whereas the industry average for Malaysia is 19 MT/Ha. In 2019, we expect to close this gap with yields at 19.4 MT/Ha.

For 2018, we are forecasting average CPO production cost (ex-mill) at RM1,666 per MT. In

2019, we are targeting average CPO production cost (ex-mill) at RM1,469 per MT.

Through its transformation plan, FGV will correct its legacy issues and restore operational integrity. It is estimated that at an average CPO price of RM2,500 per MT, FGV should be able to earn profit before tax (PBT) of RM1.0 billion a year. All shareholders, especially FELDA will stand to benefit.

Getting to this stage in our future will take a lot of hard work and dedication, to correct the sins of the past and restore our operations to optimal levels.

One of the startling revelations over the last few months is the scale of the leakages and inefficiencies that have permeated almost the whole company. As a result of inefficient procurement processes for example, FGV may be losing millions of ringgit a year.

Several initiatives are being implemented including a group-wide review of procurement policies and practices. We are also reviewing our capital structure and financing costs. Additionally, the Group is looking at rightsizing our manpower requirements.

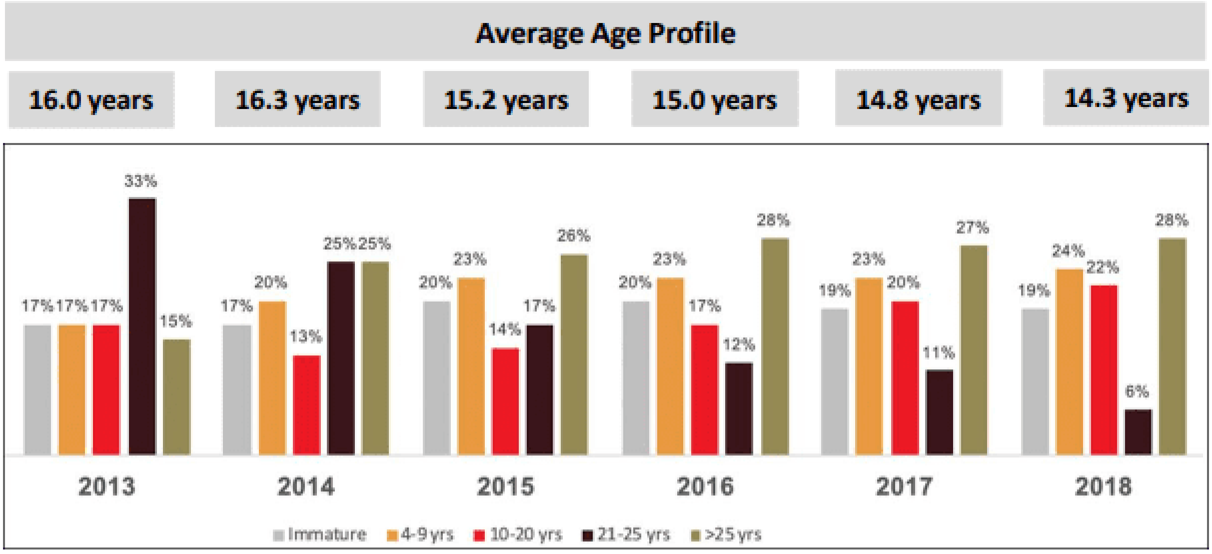
It is estimated that FGV will be able to save at least RM150 million in 2019 from plugging leaks and addressing inefficiencies.

2. **The critical inputs required to turnaround operations were a drain on already diminished resources. At listing, more than half of FGV’s estates had oil palms that were unacceptably old because of decisions made before listing to reduce cost by not replanting sufficiently. This was an unwise decision that was repeated over a few years, and resulted in FGV’s current sub-optimal age profile.**

Most unfortunately, the decision to reduce cost by not replanting sufficiently has left lasting and negative impacts on FGV.

Since its listing, FGV has committed to replanting the old palm trees on a disciplined replanting schedule. Despite this, we still have approximately 33,000 ha of land with trees that are above 30 years old.

Age Profile



Replanting schedule

Year	Replanting Area ('000 Ha)
2013	14.9
2014	13.5
2015	10.0
2016	16.3
2017	10.3
2018 (f)	14.4

Due to lower CPO prices, the Malaysian national replanting rate has dropped to below 2%. Most Plantation companies adopt a more conservative approach to replanting to manage costs when prices are low. However, FGV does not have this luxury as too large a proportion of its estates are over 25 years old. A well-managed company would have 4% of its estates at 25 years and nothing more.

This is a legacy issue, but we will correct it over the next few years. We will take responsible measures that will ultimately bring benefits to shareholders.

3. **The proceeds from the listing had been whittled away and not all of it was invested wisely.**

The depletion of FGV's financial resources was evident when in the third quarter of 2018, FGV impaired a total of RM788 million. In other words, we have taken the hit and can now decide how best to extract some value from some of these assets and investment.

4. **In certain areas, organisational structures were not beneficial to shareholders.**

As a listed company, FGV's top priority must be its shareholders. Unfortunately, current internal organizational structures do not always optimize benefit to shareholders. These are being rectified to maximise shareholder value.

5. **Some of our Joint Ventures (JVs) are underperforming.**

There are certain JVs that have not brought optimal benefits to the company. These are also being reviewed and announcements will be made as required.

6. **There are non-core businesses that take up resources and time but do not offer the kinds of rewards a reasonable investor would expect.**

FGV has identified several non-core businesses and assets with an estimated value of RM350 million for disposal. Announcements will be made at the appropriate time.

FGV has also identified several areas for the development of strategic alliances or partnerships to capitalize on our strengths and plug capacity gaps where there are any.

7. **The culture is not consistent with a progressive and dynamic organization; and the people were not performance centric.**

After consecutive quarters of dismal and declining performance, it is clear that a culture change in FGV is long overdue. Furthermore, the leadership struggle of 2017 followed by the measures taken to address leadership challenges in 2018 have left many employees feeling displaced and uncertain.

I am philosophical about this.

Change can be both cathartic and uncomfortable. It can also hurt. However, if FGV doesn't change, we will not improve. We have to change, and your Board has taken the necessary first steps.

We will strive to develop a performance oriented culture that will enable FGV to compete in the market place and take its place among its peers. We have identified the Human Resource gaps and priorities and a people building programme will be put in place.

8. **The ongoing uncertainty over the land lease agreement (LLA) is affecting market perception and needs to be resolved immediately.**

The agreement to lease land in relation to the LLA was signed between Felda and FGV in November 2011. FGV has paid a total of approximately RM2.0 billion from 2012 to 2017 for the leased land.

FGV has always met all its obligations under the LLA contrary to what has been reported in the past.

FGV has invested billions to replant and rehabilitate the old LLA estates. To deprive shareholders of the potential benefits of their commitment and our hard work would not be equitable.

9. **There are persistent rumours on the potential delisting of FGV.**

With the transformation plan in place, there is tremendous upside potential for FGV's shareholders.

As a listed entity, FGV is also expected to uphold the highest standards of integrity and good governance as required by Bursa Malaysia, and The Malaysian Code of Corporate Governance (MCCG). As a result, we are committed to transparency and timely disclosures. Our commitment is evident in the actions we have taken thus far, including leadership changes and pursuing legal action against those responsible for the losses suffered by the company.

10. **There was confusion over the activities and businesses of Felda, Felda Investment Corp (FIC) and FGV.**

FGV is proud of its heritage as a scheme established by our nation's founding fathers to offer economic hope and opportunity for the disadvantaged. However, as a listed entity, FGV is also scrutinized by the public and the financial sector. The persistent confusion between Felda and FGV was not a positive and it reached the stage where steps had to be taken to create a clear separation between the two organisations.

The Board took the first step to address this issue by changing the brand name from "Felda Global Ventures Holdings Berhad" to "FGV Holdings Berhad" during our 10th Annual General Meeting on 28th June, 2018.

In time, as familiarity with the "FGV" brand develops, and as the company starts showing growth and positive returns, the value of the FGV brand will grow.

11. **FGV was accused of labour abuses and human rights violations by the RSPO. There were more than 40 gaps identified by the RSPO's audit team. As a company that was founded even before the the United Nation's Sustainable Development Goals (UNSDGs) were articulated, this was both unacceptable and shocking. Urgent steps were immediately taken to address the issues at hand.**

The RSPO published its report on FGV on 28th November, 2018. Since then, FGV has taken several steps to address the various issues identified in the report.

Of the 41 issues FGV has already addressed some ahead of schedule. We expect to correct all charges in respect of human rights abuses and violations by the end of well within the given deadline.

FGV is revising and reviewing its sustainability policies and commitments to address all the RSPO's charges.

In addition, we are in the process of engaging external consultants to verify and endorse the many new measures we are implementing. FGV is also in the process of establishing an Independent Advisory Panel to the Board which will publish two independent reports per year.

To date, FGV has published two progress updates, available on FGV's website, and will continue to do so until all issues have been resolved.

12. **The previous Board and management had not appropriately addressed the many issues at hand, and there was no clear solution or direction in sight.**

Over the last 12 months or so, several changes have been made to the Board. With the new Board in place and several new members of senior management taking over the reins of key portfolios in the company, I am confident that FGV will be able to address the issues and challenges that we are facing.

In the last several months, several measures have been taken, some of which are still on-going.

Conclusion

As Chairman of FGV, I have laid bare all the facts that I am able to disclose to you today. This is a practice I plan to continue as long as I am Chairman, because transparency and, timely and full disclosure are particularly important when trust has been eroded.

With the information in this letter, you can now judge us over the next several months. You can decide if we are doing right by you and the company we all call ours. And you can decide if we deserve to win your trust back.

Azhar Abdul Hamid
14th January 2019

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