

# Statement From the Board of Directors of FGV Holdings Berhad

The Board of Directors of FGV Holdings Berhad refers to the announcement of the Group's financial results for its half year ended June 2018 and Bursa Announcement dated 16<sup>th</sup> May, 2018. The latter refers to forensic investigations initiated in late 2017, on various transactions that have resulted in exposing FGV to significant financial loss.

## **1.The performance of FGV for 1HFY2018**

For the second quarter ended June 2018 (2Q2018), FGV recorded a revenue of RM3.44 billion compared to RM4.21 billion in the previous corresponding quarter. Profit before zakat and tax for 2Q2018 was RM1.25 million a 98.78% decline from the RM102.44 million registered in the previous corresponding quarter.

For the quarter in review, the Plantation Sector recorded a loss of RM6.53 million, a steep decline from a profit of RM159.88 million in the previous corresponding quarter. For the period under review, average crude palm oil (CPO) price realized was RM2,419 per metric tonne, 13.5% lower than the RM2,796 per MT in the previous quarter. CPO sales volume was 480,738 tonnes, 14.18% higher in this quarter compared to 421,045 tonnes in the previous corresponding quarter. FFB Production was marginally lower at 993,505 tonnes compared to the previous 1.04 million tonnes. CPO Oil extraction rate (OER) showed improvement to 20.61% from 19.77%. Ex-mill cost in 2Q2018 rose to RM1,884 per tonne, compared to RM1,649 in 2Q2017.

The poor performance was attributable amongst others to lower productivity which missed targets, lower average CPO price realized, higher production costs and higher share of loss from joint ventures and associate companies. However, the Board does acknowledge that further steps need to be taken by the management to enhance operational effectiveness and efficiencies, in order to produce sustained results under changing market conditions. A comparison with FGV's peers demonstrates this. Furthermore, the company's performance falls short of market expectations and the targets that were internally set by management.

For the period, the fair value charge in the Land Lease Agreement (LLA) with FELDA, of RM28.24 million is slightly higher than the RM23.06 million charged in the previous corresponding quarter.

For the six months ended June 30, 2018 the company registered FFB yields of 7.23 MT per hectare, and management is now forecasting full year yields of 17 MT p/ha, and expects yields in 2019 to be above 20 MT p/ha, as a result of improvements in agricultural practices and aggressive replanting. This falls below the initial internal target 17.5 MT p/ha and is

also below the national industry average.

The sugar business under MSM Holdings Berhad registered a profit of RM27.9 million for the quarter, while the Logistics & Support Businesses sector recorded profits of RM31.34 million.

The targets set by management at the beginning of this financial year had taken into account unprecedented labour shortages and the age profile of FGV's trees. Currently, out of a planted area of 342,420 ha, about a third, or 131,470 ha is 20 years old and above. A further 144,991 ha is categorised as young and immature.

#### Transformation Office established

In view of the unfavourable performance of the company, in April 2018, the Board instructed management to establish a Transformation Office (TO).

The TO is in the process of finalising audits into estate and mill operations and downstream processes. Early findings reveal serious issues at multiple levels within the organization, ranging from poor work discipline, operational inefficiencies to leakages that need to be addressed immediately. The TO will submit its final report to the Board in the next few weeks.

In view of the many operational shortfalls and the inability of management to offer convincing explanations, solutions or strategic plans, the Board had on 5<sup>th</sup> July, 2018, established a three-member Special Board Committee (SBC) to:

1. Monitor the performance of FGV closely;
2. Engage directly with the Group President/Chief Executive regularly on the progress of key result areas;
3. Ascertain the sufficiency of steps being taken and planned, for the attainment of such key result areas;
4. Make such recommendations and give directions to the management where appropriate.

The three members of the SBC are FGV Chairman, Azhar Abdul Hamid and Board members, Datuk Dr Salmiah Ahmad and Dr Nazeeb Alithambi.

#### Immediate recommendations of the SBC

- The SBC shall be expanded to draw from the expertise of board members, among whom are specialists in the plantation industry, corporate governance and turnaround management.
- The expanded SBC shall provide oversight for the various board-led operational

and governance initiatives with the management team.

- The Board Tender Committee (BTC) shall lead the review of the Group's entire procurement function. The BTC is headed by Datuk Siti Zauyah Mohd Desa, who is the Deputy Secretary General (Policy) of the Ministry of Finance.
- The SBC shall appoint key individuals to several critical management functions, to restore operational integrity and ensure the implementation of best management practices in all the Group's business units.
- The Board shall implement a stringent review and reorganisation of FGV's operations.

The recommendations of the SBC were adopted at a board meeting on 28<sup>th</sup> August, 2018. Additionally, the Board has committed to:

- Transparent and timely disclosures of its findings.
- Announce in due course, an operational turnaround plan which is performance centric, focused on profitability and returns, with clear and measurable deliverables.
- A review of the Group's non-core businesses with a view to unlocking value and to redirect resources towards the Group's core businesses.

"It is the Board's view that with a performance centric management team, FGV will be able to extract much more value from its assets than it has in the recent past," Azhar said. "Right now, there are several leaks that have to be plugged and process improvements, which when implemented, will lead to immediate bottom-line improvement," he added.

## **2.The findings of the forensic audits and internal investigations**

In January 2018, the Board officially appointed forensic investigators to look into six transactions and/or investment decisions, of which four have been completed. The investigations, which have been completed include:

1. The acquisition of Asia Plantations Limited (APL),
2. Investment in FGV Cambridge Nanosystems Ltd (FGV CNS)
3. The acquisition of the Troika condominiums,

The investigations reveal adverse findings.

Additionally, the Board has undertaken internal investigations into six further matters, which fall into three categories, namely:

1. Open credit lines, poor purchasing trading practices and poor palm oil sales that have resulted in bad debts of approximately RM100 million;
2. Direct awards of procurement contracts in breach of best practice;

3. The critical shortage of workers between May 2016 and April 2018, that resulted in financial losses exceeding RM170 million over the period.

The Board is reviewing all the above-mentioned findings and has sought legal advice on the possible legal recourse. In view of this, and as a matter of prudence, the Board will make further announcements on the next course of action after the Board has been duly advised.

The Board recognises that FGV has a responsibility to all its shareholders to generate and deliver value. While FGV has always fulfilled the terms of the LLA with FELDA, the Board is of the view that there is much room for improvement both operationally and in terms of financial management.

“FGV needs to refocus on its core competencies and to ensure that we restore the integrity of our operations. Furthermore, the board is committed to ensuring that the highest principles of corporate governance are instilled in all the Group’s employees, at all levels. Thus, while the board resolves the issues surrounding past investments and transactions that have depleted FGV’s cash resources, it will simultaneously strive to ensure that this critical turnaround plan is implemented,” Azhar added.

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**About FGV Holdings Berhad (formerly known as Felda Global Ventures Holdings Berhad)**

FGV Holdings Berhad (formerly known as Felda Global Ventures Holdings Berhad) is Malaysia’s leading global agri-business and is the world’s largest producer of Crude Palm Oil (CPO).

FGV’s operations stretch across more than 10 countries in Asia, the Middle East, North America and Europe, and are focused on three main sectors: Plantation, Sugar and Logistics & Others. As the core business of the Group, the Plantation Sector is enhanced through a fully integrated palm value chain of upstream, processing and downstream activities.

FGV is the world’s third largest oil palm plantation operator, has the world’s largest bulking and storage facilities for vegetable oil and is Malaysia’s top refined sugar producer. It also specialises in the production of renewable bio-fuels, oleo chemicals, oils and fats, and rubber processing activities

With a workforce of more than 35,000, FGV aspires to be one of the world’s leading agri-business companies.

For more information, please visit <http://www.feldaglobal.com>