FIRST RESOURCES LIMITED
(Incorporated in Singapore)
(Company Registration No. 200415931M)

RESPONSES TO QUESTIONS RECEIVED FOR THE ANNUAL GENERAL MEETING 2023

The following questions were received from shareholders of First Resources Limited (the "**Company**", and together with its subsidiaries, the "**Group**") and the Securities Investors Association (Singapore) ("**SIAS**") for the Company's Annual General Meeting on 27 April 2023. Accordingly, please find below the responses from the Company.

<u>Question 1</u>
Does the company intend to go downstream or maintain its upstream focus in the foreseeable future?

<u>The Company's Response:</u>

The Group has budgeted approximately US$170 million of capital expenditure for FY2023, of which a significantly bigger portion will be spent on the expansion of our downstream processing capabilities. The rest of the projected capital expenditure will be put into replanting as part of our efforts to maintain a favourable age profile across our plantations, as well as the ongoing maintenance of immature oil palm plantations, other infrastructure needed in our upstream plantation operations, and the upgrading and maintenance of existing crude palm oil ("CPO") mills.

Looking forward, the Group will continue to look at downstream investment as an avenue to value add to our upstream operations, while continuing to ensure that the quality of our upstream assets is well maintained.

<u>Question 2</u>
Please comment on the competitiveness of palm oil relative to other edible oils currently.

<u>The Company's Response:</u>

The price competitiveness of palm oil versus other edible oils is driven by the supply and demand dynamics for the different oils, which is influenced by many factors including changes in import and export policies in various countries, global economic conditions and weather conditions in the producing countries, amongst others.

Palm oil is generally considered to be one of the most price competitive edible oils wherein its price is typically lower than that of other vegetable oils such as soybean oil, rapeseed oil and sunflower oil. That said, fluctuations in the prices of palm and other competing oils causes the price spreads between palm and other competing oils to be dynamic, varying almost daily, with current spreads having come down from the highs reached in 2022.

Question 3
Please provide more information on the company's Domestic Market Obligation in Indonesia. Does it come in the form of a fixed volume or percentage of the company's total CPO production?

The Company's Response:

Since 2022, the Indonesian government has imposed Domestic Market Obligation ("DMO") on its palm oil producers in an attempt to bring down palm cooking oil prices for the masses, and made several modifications to the DMO policy along the way.

Based on the current DMO policy, every tonne of DMO local sales done will allow us to receive a predetermined multiple of export rights, which are required in order to export restricted products, such as CPO, refined, bleached and deodorised ("RBD") palm oil and RBD palm olein. In other words, depending on the volume of restricted products we want to export, the Company will have to do a commensurate volume of DMO local sales.

Question 4
Would fertiliser costs impact the company's cash cost of production more significantly in the year ahead?

The Company's Response:

Hindered by the overly wet weather over Southeast Asia, application of fertilisers by the Group was less than optimal during FY2022 due to concerns of the applied fertilisers being washed off by the rains. We target to achieve normal fertilisation rates in FY2023 and therefore expect cash cost of production to be higher than that of the previous year.

Question 5
Can the company provide a breakdown of its export markets (e.g. revenue by region)?

The Company's Response:

As disclosed in Note 43 of the audited financial statements on page 148 of our FY2022 Annual Report, US$510 million of the Group's export sales was billed to customers based in Singapore, US$85 million to customers in Europe and US$79 million to customers in China, with US$462 million recorded as domestic sales within Indonesia.

Question 6

For the financial year ended 31 December 2022, the group achieved underlying net profit of US$334.2 million, an increase of 123.9%. The strong financial performance was driven by higher average selling prices of US$1,239 per tonne despite unprecedented volatility in Crude palm oil (CPO) prices in 2022.

Fresh fruit bunches (FFB) production reached a new high of 3.566 million tonnes, while CPO and palm kernel production also hit highs of 881,062 tonnes and 197,620 tonnes respectively. There was a net inventory build-up of 40,000 tonnes in FY2022, as opposed to a drawdown of 30,000 tonnes in FY2021.

(i) What were the reasons for the lower sales volume (863,019 tonnes vs 911,239 tonnes)? Was the decline in sales volume due to a deliberate strategy by management to hold back sales and build up inventory to optimise selling prices and profit, or were there other factors such as logistics or operational challenges that affected sales volume?

The Company's Response:

The lower sales volume was not a deliberate strategy by management to hold back sales and build up inventory. Any inventory build-up/drawdown as at quarter-end is merely a result of the timing of delivery of goods to our buyers. Our export sales are recognised upon loading of our cargo onto the vessels. Sometimes, when the vessel appointed by buyer arrive later than expected, delivery slips into the next quarter.

The cash cost of production of each tonne of nucleus CPO on an ex-mill basis was approximately US$276 (2021: US$250) due to increase in wages and infrastructure maintenance. The increase in cash cost of production was offset by sub-optimal application of fertilisers due to adverse weather conditions.

(ii) What is the estimated impact of missed/lower fertiliser application on the FFB yield going forward?

The Company's Response:

The impact of missed or lower fertiliser application on fresh fruit bunches ("FFB") yield can vary, depending on factors such as the type and amount of fertiliser used, weather conditions and other agronomic practices. In general, lack of nutrients from proper fertilisation can negatively impact the growth of the oil palms and quality of the fruits, leading to lower FFB yields in the ensuing 12 to 18 months, or even up till 36 months if the nutrient deficiency persists.

With the fading off of La Nina after the first quarter of 2023, the Group is targeting to achieve normal fertilisation rates in FY2023 and henceforth, to ensure that any nutrient deficiency from under fertilisation in the previous year is addressed to maintain the healthy growth and productivity of our oil palms.

In the message to shareholders, there was an in-depth discussion on CPO prices and the policy impact on prices (pages 10 & 11). The chairman and CEO further added that the group believes that the combined demand and supply dynamics will keep CPO prices at sufficiently remunerative levels, although they expect the average prices in 2023 to moderate from the high base recorded in 2022.

(iii) Can management also share its thoughts on hedging CPO prices and/or entering into (more) forward sales?

The Company's Response:

As part of our ongoing risk management policy, the Group can hedge a certain proportion of our forecasted production by way of forward sales. This serves as a form of downside price protection on the hedged volumes whilst still allowing some upside from increases in CPO prices on the unhedged volumes.

In times when CPO prices are on a downward trend, the Group will benefit from the realisation of forward sales and lower export levies from the weakening market prices, and vice versa.

Management will closely monitor developments in the regulatory and macro environment, as well as prevailing supply and demand conditions impacting the prices of palm oil and other competing oils, when hedging CPO prices and/or entering into forward sales.

(iv) To what extent can management leverage technology, such as sensors and drones, to mitigate the negative effects of El Nino?

The Company's Response:

El Nino is typically associated with droughts and water scarcity in Asia. During episodes of El Nino, prolonged shortage of rainfall can lead to moisture deficiency for the palm trees, impacting fruit formation and typically resulting in lower FFB yields between six to 18 months post the El Nino event.

Given the scale of our plantation operations and the technology available, there is currently no efficacious and cost-effective technology as yet to negate the effects of El Nino.

Question 7

The planned capital expenditure (capex) for FY2023 will be approximately US$170 million. Apart from replanting, the group will expand its processing capabilities and carry out ongoing maintenance of immature oil palm plantations and other upstream infrastructure, and upgrade and maintain its mills.

The age profile of the group's plantations is shown on page 15 of the company annual report.

(i) What is the desired age distribution of plantations that the group is striving to attain?

The Company's Response:

In line with our continuous replanting efforts to rejuvenate the Group's older plantations in a measured approach, we have replanted 3,000 hectares of oil palm estates during 2022, and plan to consistently replant a certain percentage of our oil palm trees annually in order to smooth out the Group's overall plantation maturity profile.

(ii) Are the individual capex projects approved based on normalised CPO prices, or were any of them brought forward due to higher-than-expected CPO prices seen in 2022?

<u>The Company's Response:</u>

Capex plans are determined by a variety of factors including the Group's strategic objectives and operational requirements and have not been accelerated due to higher CPO prices experienced in 2022. In terms of growth and investments, the Group continually explores suitable opportunities that can value-add to our existing palm oil value chain.

(iii) What guidance has the board given to management to ensure that the group invests and expands at a prudent pace while still capitalising on good opportunities that arise?

<u>The Company's Response:</u>

The Board is responsible for governing risks and ensuring that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets.

In addition to the formal quarterly Board meetings, the Board also organises Board strategy meetings periodically for in-depth discussions on strategic issues and direction of the Group.

The Board thoroughly evaluates investment plans presented by Management during Board meetings. For investment projects which require the Board's decision outside such meetings, Board papers will be circulated for the Board's consideration, with discussions and clarifications taking place between members of the Board and Management directly, before approval is granted.

<u>Question 8</u>

As mentioned in the message to shareholders, the group received Roundtable on Sustainable Palm Oil (RSPO) certifications for an additional four mills, covering 40,263 hectares of plantations.

As at December 2022, the group has received RSPO certifications for eight of the subsidiaries covering six mills and more than 59,000 hectares of plantations in the provinces of Riau and East Kalimantan, representing 34% of the group's nucleus planted area.

Compare that to the situation about 2.5 years ago at the onset of the COVID pandemic, as of May 2020, RSPO certifications were obtained for three of its subsidiaries covering three mills and more than 27,000 hectares of plantations located in the province of Riau. The group is committed to achieving 100% RSPO certification across its operations by 2026.

(i) Can management provide an update on the group's RSPO certifications, specifically if any certifications have expired or been revoked?

The Company's Response:

In 2022, we met our 2022 RSPO certification target of four mills which encompasses more than 40,000 hectares of plantations. As of 31 December 2022, we have received RSPO certifications for six mills and more than 59,000 hectares of plantations in the provinces of Riau and East Kalimantan, representing 34% of the Group's nucleus planted area. We also successfully renewed all our existing certificates.

(ii) Has the pandemic caused the group to delay achieving 100% RSPO certification by 2 years (to 2026)?

The Company's Response:

The COVID-19 pandemic resulted in travel restrictions which affected on-site RSPO audits and hampered our progress to meet our target to certify all mills and plantations by 2024.

We have reviewed and since updated our target to achieve full RSPO certification target by 2026. With restrictions lifted on domestic and international travel in 2022, the significant progress made in 2022 have been encouraging and have placed us on track to meeting our 2026 target.

(iii) What are the main challenges the group is facing in obtaining RSPO certification, now that the pandemic is under control?

The Company's Response:

The RSPO certification process involves on-site audits conducted by an RSPO accredited certification body to assess compliance with the RSPO Principles and Criteria for Sustainable Palm Oil Production. Based on the audit findings, the certification body prepares a report that identifies any non-conformities with the RSPO Standards which must be addressed through a corrective action plan developed by the auditee. Once the certification body verifies that the corrective action plan has been implemented, a certificate of compliance is issued. The RSPO certification process is rigorous and can take several months to complete.

On an annual basis, surveillance audits are also conducted to ensure compliance with the RSPO Standards and recertification audits are carried out every five years for renewal of the RSPO certifications.

Having gone through the RSPO audit process, the Group is familiar with the requirements of RSPO Standards. The Group will prepare for and continue to work towards renewing our existing certificates and certifying another three mills integrated with plantations and two kernel crushing plants in FY2023, subject to the availability and schedule of the auditors from the RSPO accredited certification bodies.

(iv) How does RSPO certification impact the group's sales and marketing efforts? Is RSPO certification becoming a basic requirement in the industry?

The Company's Response:

Consumers have become increasingly interested in knowing where their products come from and how they were processed, and are more inclined to support companies that are committed to ethical and sustainable practices.

However, RSPO or other forms of certification is not a necessary nor sufficient condition for buyers in the industry. Rather, many of our major customers have their own supplier program which focuses on engaging and cooperating with suppliers like us in ensuring the traceability and sustainability of their value chain.

BY ORDER OF THE BOARD
FIRST RESOURCES LIMITED

Eunice Hooi
Company Secretary
21 April 2023