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

RESPONSE TO QUESTION RECEIVED FOR THE ANNUAL GENERAL MEETING 2021

The following question was received from a shareholder of First Resources Limited (the "**Company**", and together with its subsidiaries, the "**Group**") for the Company's Annual General Meeting on 29 April 2021. Accordingly, please find below the response from the Company.

Question
Can you explain and help us understand the forward sales reported to have been entered into by the Company for 1H2021. Any impact to earnings for 1H2021?

The Company's Response:
As part of our ongoing risk management policy, the Group can hedge a certain proportion of its 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 like what we saw in 2012 and 2013, the Group had also benefited from the realisation of forward sales as a mitigant against the weakening market prices.

CPO prices were extremely volatile in 2020, hitting a low of US$495 per tonne in May before recovering in the second half of the year as economic activities started to resume. As CPO prices trended upwards in 2H2020, the Group started to enter into forward sales for its 2021 forecasted production and have locked in a meaningful portion of its 1H2021 forecasted production by end of 2020.

In December 2020, there was a change to the Indonesian export levy structure such that the levy payable by exporters for every tonne of CPO exported was increased from a flat rate of US$55 per tonne to a progressive system wherein the export levy increases by US$15 per tonne for every US$25 per tonne of increase in market CPO price. The export levy amounts vary depending on product type, with that for processed products lower than that for CPO.

Although our forward sales were locked in at prices that were sufficiently remunerative as compared to our cash cost of production, it then means that our 1H2021 results may not be able to enjoy the further upside from subsequent increases in market CPO prices whilst having to bear the higher export levies from the increased market CPO prices in 2021. Albeit on a full-year basis, there can still be some price upside from remaining unhedged volumes, especially in 2H2021.

Volatility in commodity prices and changes in the export tax structure are inherent parts of the palm oil business that impact all the players in the industry, but the Group has demonstrated over the years that it is able to navigate them well with the following key mitigations:-

(a) Lean cost of production

The Group's cash of production has largely remained unchanged in the last decade, with each tonne of nucleus CPO on an ex-mill basis costing us US$221 to produce in FY2020. This is a reflection of the Group's continued focus on yield and cost whilst striving to be on the low end of the industry cost curve as a defence against market price volatility and changes in the export tax structure.

(b) Well-positioned as an integrated player

Under the new progressive export levy structure announced in December 2020, the export of processed products attracts relatively lower export levies as compared to CPO. Being integrated, the Group is well-positioned to manoeuvre and make changes to its product mix to capture the incremental margins, resulting in more competitiveness compared to the pure plantation players.

Lastly, even though the new export levy structure can be punitive to Indonesian palm oil producers, the export levies collected are being utilised to fund the local biodiesel mandate in Indonesia, which is supportive to the overall palm oil demand-supply dynamics and impacts palm oil prices positively in the longer-term.

BY ORDER OF THE BOARD
FIRST RESOURCES LIMITED

Chester Leong
Company Secretary
22 April 2021