QUESTIONS RAISED BY MSWG RELATING TO 46TH AGM OF IOI CORPORATION BERHAD

1) **The plant utilisation for refinery and special oils & fats for FY2015 were only 66% and 52% respectively. The rates were in declining trends since FY2013.**

What were the reasons for the low plant utilisation rates and what are the measures taken to improve the rates?

The low utilization rate in the refinery sub-segment during the past three years was mainly due to increased refining capacity in Indonesia. This sub-segment has now become very competitive and recorded negative refining margins in most periods of FY 2015. The Group will utilize more of its refining capacity when there is positive/better refining margin in the market.

As for specialty oils and fats sub-segment, most of our overseas specialty plants are fairly utilized at above 70% level. The lower plant utilization is coming from our primary processing plant (Lipid Enzymtec) in Pasir Gudang, Johor. This plant which we added approximately 500,000 MTs capacity during FY 2012, is mainly used to process our base products to support our specialty plant around the world. The Group has taken the following steps to increase its sales and plant utilization:

- Has entered into a joint venture with Kerry Group Plc to increase its **Betapol®** sales globally; and
- Explore strategic partnership with local or international specialty oils & fats players to increase its sales of cocoa butter equivalent ("CBE") products in Russia, Eastern Europe and Latin America, mainly in Brazil and Mexico**.**

2) **As at 30 June 2015, the Group has significant total borrowings of RM6.648 billion, mainly denominated in USD. The high foreign borrowings had adversely impacted the bottom line of the group by RM735 million for FY2015 due to currency translation loss and increased the net gearing ratio from 58.57% for FY2014 to 96.06% for FY2015 while the gross gearing was 131%.**

a) **Why was there a need for the Group to maintain high borrowings especially in foreign denominated loan resulting in such a high translation loss?**

The Group has taken steps to reduce its borrowings. During the financial year 2015, the Group has fully redeemed its USD 500 million Guarantee Notes and has since repaid USD150 million of the USD600 million syndicated term loan taken in 2011.

IOI Corporation is an international organization. We export or sell our products to more than 85 countries across the globe. As we are engaged in cross border and international trade, most of our sales are denominated in US Dollar; where as our reporting currency in the books is in Ringgit. It will only be prudent to borrow in USD currency as most of our sales proceeds/accounts receivables are in USD. The USD receivables will act as a **natural hedge** in matching the USD borrowings liabilities. Our long term USD borrowings maturity profile is as follows:

- Maturing in FY 2016 – Nil
- Maturing in FY 2017 – 28 %
- Maturing in FY 2018 – 15 %
- Maturing in FY 2019 – 7 %
- Maturing in FY 2022 and beyond – 50 %

b) Considering the current market conditions for plantation companies, what are the measures taken by the Board to mitigate the impact of the borrowings on the bottom line and to optimize the gearing ratio for the group?

The Group's gearing ratio when compared to its historical book equity is high. This is due to most of our plantation acquisitions, which the Group acquired decades ago (1980s/1990s) are recorded in historical cost in the books. Since most of our plantation estates carrying amounts are in historical cost, the aforesaid gearing ratio is not a good indicator to measure the financial strength of the company. However, going forward, with the adoption of the new Malaysian Financial Reporting Standards ("MFRSs") framework, which allows the Group to fair value its plantation land and estates, the gearing ratio will then be reflective of the group's credit/ financial strength.

As mentioned in item (2) above, we have reduced our borrowings recently. This will help to reduce the impact of FX volatility in the books. In addition, the Group will review its USD obligations twelve months before their maturity dates and adopt the following foreign currency exchange strategies:

1. At appropriate time, hedge the foreign currency liabilities by entering into a foreign currency derivative/forward contract;
2. Collect foreign currency/Accounts receivables proceeds nearer to the date of loan maturities to repay its foreign currency obligations;
3. Refinance its obligation using a foreign and/or RM denominated borrowings, where appropriate and,
4. A mix of the strategy of 1 to 3 above.

3) **We noted that the joint venture with Adeka Foods (Asia) Sdn Bhd had not been contributed positively to the Group's bottom line.**

Could the Board share with the shareholders on the outlook of this joint-venture and the measures taken to turn around the joint venture?

The jointly controlled entity, Adeka Foods ("Adeka") commenced its operations during FY 2014. We expect Adeka to breakeven by the end of calendar year 2016 and subsequently contribute positively to the Group. Currently, Adeka plans to expand its sales team locally and also extend its regionally sales beyond the Asean region.

4) **On 23 June 2015, the Group entered into a joint venture agreement with Kerry Group Plc, to develop and market its nutrition lipid Betapol business and on 9 September 2015, entered into a conditional asset purchase agreement with Cremer Oleo GmbH & Co KG to acquire Cremer's entire oleochemicals manufacturing business in Germany.**

What is the expected time frame for these ventures to contribute positively to the Group's bottom line?

The existing **Betapol®** business is already profitable and has been contributing positively to the PnL. With the aforesaid joint venture with Kerry Group, we expect to further extend our Betapol® portfolio in the infant nutrition segment and also expand into other key nutrition market segments.

As for the acquisition of Cremer's oleo chemicals business in Germany, we expect the proposed acquisition to complete by quarter one of calendar year 2016 after regulatory approvals. The acquisition will enable us to move further up the value chain in a more specialised downstream oleo-chemical business. The existing business already has positive EBITDA. Going forward, our Oleo-chemical division will need to review of its overall global strategy to extract its full potential.

5) **As part of the strategy to expand the specialty oil and fats business geographically, the Group is in the midst of constructing a specialty oils & fats plant in Xiamen, China.**

What is the total CAPEX for the plant and the source of financing for this project?

The budgeted CAPEX for the specialty oils and fats plant in Xiamen is approximately USD65.0 million and it is financed through internal generated funds.

6) ***Corporate Governance***

The Company's reply to our letter dated 20 October 2014 stated that the Board will consider MSWG's suggestion to publish AGM minutes on the company's website. However, to-date, we noticed that there were no minutes in the Company's website. Thus, we hope the Board would seriously consider our recommendation to publish the minutes of the AGM

We understand the desirability of enabling shareholders who cannot personally attend the AGM to learn about the proceedings during the AGM. However, in the Company's view, publishing the minutes on the Company's website which is open to anyone to access is not the way to do it, as the Company's commercial confidentiality may be compromised. The Company will find an alternative way of allowing shareholders to access the minutes electronically.