Second Quarter Report 2018

UNITED PLANTATIONS BERHAD
(Company No.240 A)
Jendarata Estate • 36009 Teluk Intan • Perak Darul Ridzuan • Malaysia

United Plantations Berhad

Condensed Consolidated Statement of Comprehensive Income for the Six Months Ended 30 June 2018

(The figures have not been audited)

(RM'000)	Quarter ended 30 June 2018	Quarter ended 30 June 2017 (Reported under MFRS)	Changes (%)	2017 (Previously reported under FRS)	6 Months ended 30 June 2018	2017 (Reported under MFRS)	Changes (%)	2017 (Previously reported under FRS)
Revenue	**309,930**	355,262	-12.8%	355,262	**635,474**	734,495	-13.5%	734,495
Operating expenses	**(209,462)**	(227,843)	-8.1%	(227,843)	**(436,244)**	(512,529)	-14.9%	(512,529)
Other operating income	**2,724**	12,515	-78.2%	9,019	**37,649**	17,176	119.2%	12,088
Finance costs	**(4)**	(10)	-60.0%	(10)	**(11)**	(10)	10.0%	(10)
Interest income	**7,215**	6,131	17.7%	6,131	**14,792**	11,739	26.0%	11,739
Share of results of joint venture	**(400)**	-	-	-	**(566)**	-	-	-
Profit before taxation	**110,003**	146,055	-24.7%	142,559	**251,094**	250,871	0.1%	245,783
Income tax expense	**(21,926)**	(33,120)	-33.8%	(32,281)	**(62,104)**	(58,539)	6.1%	(57,318)
Profit after taxation	**88,077**	112,935	-22.0%	110,278	**188,990**	192,332	-1.7%	188,465
Profit for the period	**88,077**	112,935	-22.0%	110,278	**188,990**	192,332	-1.7%	188,465
Net profit attributable to:								
Equity holders of the parent	**87,245**	112,412	-22.4%	109,752	**187,746**	191,277	-1.8%	187,420
Non-controlling interests	**832**	523	59.1%	526	**1,244**	1,055	17.9%	1,045
	88,077	112,935	-22.0%	110,278	**188,990**	192,332	-1.7%	188,465
Earnings per share								
(i) Basic - based on an average 207,792,492 (2017:207,792,492) ordinary shares (sen)	**41.99**	54.10	-22.4%	52.82	**90.35**	92.05	-1.8%	90.20
(ii) Fully diluted (not applicable)	**-**	-	-	-	**-**	-	-	-

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes and the Annual Audited Financial Statements for the year ended 31 December 2017.

Condensed Consolidated Statement of Comprehensive Income for the Six Months Ended 30 June 2018

(The figures have not been audited)

(RM'000)	Quarter ended 30 June 2018	Quarter ended 30 June 2017 (Reported under MFRS)	Changes (%)	2017 (Previously reported under FRS)	6 Months ended 30 June 2018	6 Months ended 30 June 2017 (Reported under MFRS)	Changes (%)	2017 (Previously reported under FRS)
Profit for the period	**88,077**	112,935	-22.0%	110,278	**188,990**	192,332	-1.7%	188,465
Currency translation differences arising from consolidation	**(957)**	(3,552)	-73.1%	(3,552)	**(9,026)**	(3,913)	130.7%	(3,913)
Total Comprehensive income	**87,120**	109,383	-20.4%	106,726	**179,964**	188,419	-4.5%	184,552
Total comprehensive income attributable to:								
Equity holders of the parent	**86,722**	109,035	-20.5%	106,375	**179,605**	187,550	-4.2%	183,693
Non-controlling interests	**398**	348	14.4%	351	**359**	869	-58.7%	859
	87,120	109,383	-20.4%	106,726	**179,964**	188,419	-4.5%	184,552

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes and the Annual Audited Financial Statements for the year ended 31 December 2017.

United Plantations Berhad

Condensed Consolidated Statement of Financial Position as at 30 June 2018

(The figures have not been audited)

(RM'000)	30 June 2018	31 December 2017 (Reported under MFRS)	1 January 2017 (Reported under MFRS)
ASSETS			
Non-Current Assets			
Property, plant and equipment	**1,484,639**	1,474,059	1,419,373
Land use rights	**35,976**	34,115	36,192
Associated company	**50**	50	50
Joint venture	**29,333**	29,899	- *
Derivatives	**1,736**	3,417	-
Deferred tax assets	**4,822**	3,524	1,732
Total non-current assets	**1,556,556**	1,545,064	1,457,347
Current Assets			
Inventories	**144,103**	156,833	189,958
Biological assets	**34,409**	31,388	28,262
Trade & other receivables	**284,394**	237,588	293,239
Prepayments	**1,294**	3,211	2,475
Tax recoverable	**1,963**	3,848	6,247
Derivatives	**7,639**	20,244	3,456
Cash and bank balances	**182,357**	473,711	272,292
Short term funds	**544,352**	377,874	418,622
Total current assets	**1,200,511**	1,304,697	1,214,551
Total assets	**2,757,067**	2,849,761	2,671,898
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	**390,054**	390,054	208,134
Share premium	**-**	-	181,920
Treasury shares	**(8,635)**	(8,635)	(8,635)
Other reserves	**170**	8,311	21,798
Retained profits	**2,072,638**	2,134,243	1,980,240
	2,454,227	2,523,973	2,383,457
Non-controlling interests	**7,252**	6,893	5,588
Total equity	**2,461,479**	2,530,866	2,389,045
Non-Current Liabilities			
Retirement benefit obligations	**14,766**	13,626	13,254
Deferred tax liabilities	**149,324**	140,332	123,699
Derivatives	**749**	1,115	178
Total non-current liabilities	**164,839**	155,073	137,131
Current Liabilities			
Trade & other payables	**110,369**	137,749	114,403
Tax payable	**14,409**	13,333	16,152
Retirement benefit obligations	**994**	971	749
Derivatives	**4,877**	11,658	14,312
Bank borrowings	**100**	111	106
Total current liabilities	**130,749**	163,822	145,722
Total liabilities	**295,588**	318,895	282,853
Total equity and liabilities	**2,757,067**	2,849,761	2,671,898
Net assets per share (RM)	**11.81**	12.15	11.47

* The carrying amount of the investment in joint venture as at 1 January 2017 was RM1.00

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes and the Annual Audited Financial Statements for the year ended 31 December 2017.

Condensed Statement of Changes in Equity
for the Six Months Ended 30 June 2018
(The figures have not been audited)

	← Attributable to Equity Holders of the Parent →								
(RM'000)	Share Capital	Treasury shares	Retained profits	Share premium	Capital reserve	Translation reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2018. as previously stated	390,054	(8,635)	2,101,379	-	21,798	(4,299)	2,500,297	6,714	2,507,011
Effects on adoption of MFRS	-	-	32,864	-	-	(9,188)	23,676	179	23,855
Balance at 1 January 2018. as reported under MFRS	390,054	(8,635)	2,134,243	-	21,798	(13,487)	2,523,973	6,893	2,530,866
Total comprehensive income for the period	-	-	187,746	-	-	(8,141)	179,605	359	179,964
Dividends, representing total transaction with owners	-	-	(249,351)	-	-	-	(249,351)	-	(249,351)
Balance at 30 June 2018	**390,054**	**(8,635)**	**2,072,638**	**-**	**21,798**	**(21,628)**	**2,454,227**	**7,252**	**2,461,479**
Balance at 1 January 2017. as previously stated	208,134	(8,635)	1,949,817	181,920	21,798	9,188	2,362,222	5,344	2,367,566
Effects on adoption of MFRS	-	-	30,423	-	-	(9,188)	21,235	244	21,479
Balance at 1 January 2017. as reported under MFRS	208,134	(8,635)	1,980,240	181,920	21,798	-	2,383,457	5,588	2,389,045
Total comprehensive income for the period	-	-	191,277	-	-	(3,727)	187,550	869	188,419
Dividends, representing total transaction owners	-	-	(176,624)	-	-	-	(176,624)	-	(176,624)
	208,134	(8,635)	1,994,893	181,920	21,798	(3,727)	2,394,383	6,457	2,400,840
Transfer pursuant to S618(2) of CA 2016 *	181,920	-	-	(181,920)	-	-	-	-	-
Balance at 30 June 2017	**390,054**	**(8,635)**	**1,994,893**	**-**	**21,798**	**(3,727)**	**2,394,383**	**6,457**	**2,400,840**

Note: * Pursuant to Section 618(2) of the Companies Act 2016 ("CA 2016"), any outstanding share premium and capital redemption reserve accounts shall become part of Share Capital.

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes and the Annual Audited Financial Statements for the year ended 31 December 2017.

United Plantations Berhad

Condensed Consolidated Cash Flow Statements
for the Six Months Ended 30 June 2018
(The figures have not been audited)

	6 Months ended 30 June	
(RM'000)	**2018**	2017
Operating Activities		
-Receipts from operations	**641,272**	758,075
-Operating payments	**(449,276)**	(405,137)
Cash flow from operations	**191,996**	352,938
Other operating receipts	**33,718**	6,405
Taxes paid	**(51,708)**	(35,159)
Cash flow from operating activities	**174,006**	324,184
Investing Activities		
- Proceeds from sale of property, plant and equipment	**2,305**	148
- Interest received	**11,863**	10,881
- Purchase of property, plant and equipment	**(42,206)**	(79,851)
- Pre-cropping expenditure incurred	**(21,459)**	(19,197)
- Prepaid lease payments made	**(12)**	(931)
- Net change in short term funds	**(166,478)**	64,645
Cash flow from investing activities	**(215,987)**	(24,305)
Financing Activities		
- Dividends paid	**(249,351)**	(176,624)
- Finance costs paid	**(11)**	(10)
Cash flow from financing activities	**(249,362)**	(176,634)
Net Change in Cash & Cash Equivalents	**(291,343)**	123,245
Cash & Cash Equivalents at beginning of year	**473,600**	272,186
Cash & Cash Equivalents at end of period	**182,257**	395,431

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Audited Financial Statements for the year ended 31 December 2017.

Short Term Funds of RM544,352,000 (2017: RM353,977,000) are excluded from Cash Flow Statements due to reclassification of Short Term Funds from Cash & Cash Equivalents as reported in the last Annual Audited Financial Statements.

Notes To The Interim Financial Report

A1) ACCOUNTING POLICIES AND BASIS OF PREPARATION

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2017. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2017.

The financial statements of the Group for the financial period ended 31 March 2018 was the first set of financial statements prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS") Framework. The date of transition to the MFRS Framework was on 1 January 2017.

The Group has consistently applied the same accounting policies in its opening MFRS statement of financial position as at 1 January 2017 and throughout all comparable interim periods presented, as if these policies had always been in effect. Comparative information in these interim financial statements have been restated to give effect to these changes and the financial impact on transition from FRS in Malaysia to MFRS as disclosed as follows:

a) Bearer plants
The amendments to MFRS 116 and MFRS 141 Agriculture: Bearer Plants change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will be within the scope of MFRS 116. After initial recognition, bearer plants will now be measured under MFRS 116 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). As the Group is currently measuring the bearer biological assets at cost less amortisation, the change in accounting policies is limited to reclassification of the bearer assets from biological assets to property, plant and equipment and thus, the change will not impact comprehensive income or equity.

b) Biological assets
Prior to the adoption of the Amendments to MFRS 116 and MFRS 141 Agriculture: Bearer Plants, biological assets which form part of the bearer plants were not recognised. With the adoption of the Amendments to MFRS 116 and MFRS 141, the biological assets within the scope of MFRS 141 are measured at fair value less costs to sell. The changes in fair value less costs to sell of the biological assets was recognised in profit or loss.

c) Business combinations
As part of its transition to MFRS, the Group elected to apply the optional exemption not to restate those business combinations that occurred before the date of transition, 1 January 2017.

d) Cumulative translation differences
As part of its transition to MFRS, the Group elected to apply the optional exemption whereby the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition, 1 January 2017. The entire balance of RM9,188,000 for the Group in the exchange translation reserve at the date of transition has been transferred to retained profits, so as to give the exchange translation differences a fresh-start measurement of zero.

Notes To The Interim Financial Report

The impact of the changes in accounting policy on the financial statements as a result of the transition to the MFRS Framework are as follows:

Condensed Consolidated Statement of Financial Position

(RM'000)	As at 31 December 2017 Previously reported under FRS	Effects on adoption of MFRS	Reported under MFRS	As at 1 January 2017 Previously reported under FRS	Effects on adoption of MFRS	Reported under MFRS
Non-current assets						
Property, plant and equipment	-	444,585	444,585	-	448,731	448,731
Biological assets	444,585	(444,585)	-	448,731	(448,731)	-
Current assets						
Biological assets	-	31,388	31,388	-	28,262	28,262
Equity						
Other reserves	17,499	(9,188)	8,311	30,986	(9,188)	21,798
Retained profits	2,101,379	32,864	2,134,243	1,949,817	30,423	1,980,240
Non-controlling interests	6,714	179	6,893	5,344	244	5,588
Non-current liabilities						
Deferred tax liabilities	132,799	7,533	140,332	116,916	6,783	123,699

Condensed Consolidated Statement of Comprehensive Income

(RM'000)	Corresponding quarter Previously reported under FRS	Effects on adoption of MFRS	Reported under MFRS	Corresponding period Previously reported under FRS	Effects on adoption of MFRS	Reported under MFRS
Other operating income	9,019	3,496	12,515	12,088	5,088	17,176
Profit before tax	142,559	3,496	146,055	245,783	5,088	250,871
Income tax expense	(32,281)	(839)	(33,120)	(57,318)	(1,221)	(58,539)
Profit after taxation	**110,278**	**2,657**	**112,935**	**188,465**	**3,867**	**192,332**
Net profit attributable to:						
Equity holders of the parent	109,752	2,660	112,412	187,420	3,857	191,277
Non-controlling interests	526	(3)	523	1,045	10	1,055
	110,278	**2,657**	**112,935**	**188,465**	**3.867**	**192,332**

Notes To The Interim Financial Report

At the date of authorization of these interim financial statements, the following MFRS, IC Interpretations and Amendments to IC Interpretations were issued but not yet effective and have not been applied by the Group:

FRS, IC Interpretation and Amendments to IC Interpretations	Effective for annual periods beginning on or after
• MFRS 16 Leases	1 Jan 2019
• MFRS 17: Insurance Contracts	1 Jan 2021
• Amendments to FRS 10 and FRS 128 Sale and Contribution of Assets between an Investor and its Associates or Joint Venture	Deferred

A2) AUDIT REPORT

The auditor's report on the financial statements for the financial year ended 31 December 2017 was not qualified.

A3) SEASONAL AND CYCLICAL NATURE OF GROUP'S PRODUCTS AND OPERATIONS

The prices for the Group's products are not within the total control of the Group but are determined by the global supply and demand situation for edible oils and it is somewhat related to the price of mineral oil.

Crop production is seasonal. Based on statistics, the Group's production of crude palm oil ("CPO") and palm kernel ("PK") gradually increases from March, peaking around July to September, and then declines from October to February. This pattern can be affected by severe global weather conditions such as El-Nino and La Nina.

The prices obtainable for the Group's products as well as the volume of production, which is cyclical in nature, will determine the profits for the Group.

A4) EXCEPTIONAL AND EXTRAORDINARY ITEMS

There were no exceptional or extraordinary items for the current period.

A5) CHANGES IN ESTIMATES

There were no material changes to estimates made in prior quarter.

A6) EQUITY AND DEBT SECURITIES

As at 30 June 2018, the number of treasury shares held remained at 341,774 shares as there were no share buy-back nor any cancellation, re-sale or distribution of treasury shares in the current period. There was also no issuance of new shares or debt instruments in the current period.

Notes To The Interim Financial Report

A7) DIVIDENDS PAID

The following dividends were paid on 18 May 2018 in respect of the financial year ended 31 December 2017: -

Ordinary	RM'000
Final 20 sen paid	41,559
Special 100 sen paid	207,792
Total	249,351

A8) SEGMENTAL INFORMATION

Segmental information for the current period:

(RM'000)	Plantations	Refining	Other Segments	Elimination	Total
Segment Revenue:					
External sales	187,793	446,927	754	-	635,474
Inter-segment sales	155,419	-	-	(155,419)	-
	343,212	446,927	754	(155,419)	635,474
Segment Results:					
Profit before tax	209,967	37,734	3,393	-	251,094

A9) VALUATION OF PROPERTY, PLANT AND EQUIPMENT

The valuations of land and buildings have been brought forward without amendment from the financial statements for the year ended 31 December 2017.

A10) EVENTS AFTER THE BALANCE SHEET DATE

There were no material events after the balance sheet date.

A11) CHANGES IN THE COMPOSITION OF THE GROUP

There were no significant changes in the composition of the Group for the period including business combination, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

A12) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities or contingent assets as at 20 August 2018.

Notes To The Interim Financial Report

B1) **DIRECTORS' ANALYSIS OF THE GROUP'S PERFORMANCE FOR 6 MONTHS ENDED 30 JUNE 2018**

The Group's revenue for the current period at RM635.5 million was lower by 13.5% as compared to RM734.5 million recorded in the corresponding period, mainly due to the decrease in revenue for the plantations and refinery segments by 13.2% and 15.8% respectively in the current period.

The Group's profit before tax at RM251.1 million for the current period was marginally higher by 0.1% as compared to RM250.9 million in the corresponding period. The analysis of the performance in accordance to the segments are as follows:

Plantations

This major segment of the Group's revenue decreased by 13.2% to RM343.2 million in the current period from RM395.5 million in the corresponding period which resulted in the decline of profit before tax by 3.4% to RM210.0 million from RM217.3 million in the period under review. The decrease in revenue was mainly due to the lower PK price in the Malaysian operations by 24.9%, and lower CPO and PK prices in the Indonesian operations by 19.4% and 23.4% respectively in the current period compared to the corresponding period. The marginal decrease in Group CPO and PK production by 0.2% and 0.4% respectively further contributed to the decrease in revenues in the current period as compared to the corresponding period. Cost of production of CPO was higher in the current period by 8.3% mainly due to higher manuring costs, while cost of production of PK was marginally lower by 0.8% in the period under review.

The profit before tax of this segment was positively impacted by a gain of RM19.9 million in the current period due to the fair valuation of the commodity contracts at the reporting date.

The average selling prices of CPO and PK achieved for the period were as follows: -

Countries	Products	**June 2018 Current Period (RM/MT)**	June 2017 Corresponding Period (RM/MT)
Malaysia	CPO	**2,674**	2,486
Indonesia	CPO	**2,178**	2,701
Average	CPO	**2,544**	2,536
Malaysia	PK	**2,390**	3,181
Indonesia	PK	**1,656**	2,162
Average	PK	**2,231**	2,989

On average, the CPO price for the Group was marginally higher by 0.3% in the current period as compared to the price in the corresponding period, whereas the average PK price was lower by 25.4%.

Interest income for the Group was higher by 26.0% in the current period as compared to the corresponding period due to higher bank deposits and higher rates obtained.

Notes To The Interim Financial Report

Refinery

The revenue for the refinery segment decreased by 15.8% to RM446.9 million in the current period from RM531.0 million in the corresponding period mainly due to lower CPKO prices in the current period. However, favourable commodities and currency hedging positions in the current period resulted in the increase in the profit before tax of the refinery from RM35.1 million in the corresponding period to RM37.7 million in the current period.

Others

As the result of the weakening of Indonesian Rupiah (IDR) against Malaysian Ringgit, the holding companies' investments in Indonesia recorded a total of RM5.7 million in foreign exchange losses from IDR loans extended to Indonesian subsidiaries in the current period, as compared to the foreign exchange losses totaling RM5.3 million reported in the corresponding period.

B2) COMPARISON OF RESULTS WITH PRECEDING QUARTER

(RM'000)	Current Quarter 30/6/2018	Preceding Quarter 31/3/2018	Changes %
Revenue	309,930	325,544	(4.8%)
Interest income	7,215	7,577	(4.8%)
Profit Before Tax	110,003	141,091	(22.0%)
Profit After Tax	88,077	100,913	(12.7%)

The Group's revenue for the current quarter at RM309.9 million was lower by 4.8% as compared to RM325.5 million recorded in the preceding quarter, mainly due to the decrease in the revenue from the refinery segment by 14.2% in the current quarter.

Profit before tax for the current quarter at RM110.0 million was lower by 22.0% as compared to RM141.1 million recorded in the preceding quarter.

Plantations

The plantation segment registered an increase in revenue of 7.3% in the current quarter from the preceding quarter mainly to higher production of CPO by 4.1% in the Malaysian operations and higher production of CPO and PK in the Indonesian operations by 6.2% and 9.1% respectively. However, the profit before tax in the current quarter decreased by 12.2% in the current quarter mainly due a lower fair valuation gain on the commodity contracts of RM0.3 million in the current quarter as compared to RM19.6 million in the preceding quarter.

Group CPO production increased by 4.6% in the current quarter as compared to the preceding quarter, whereas Group PK production decreased by 1.9%. Cost of production of CPO and PK decreased by 17.8% and 0.1% respectively in the current quarter as compared to the preceding quarter as a result of a reduction in the manuring costs in the current quarter.

Interest income for the Group was lower by 4.8% in the current quarter as compared to the preceding quarter due to the payment of RM249.35 million in dividends hence the lower bank deposits in the current quarter.

Refinery

The refinery segment recorded a decrease in revenue and profit before tax of 14.2% and 76.2% respectively in the current quarter mainly due to lower sales volume and lower CPKO prices in the current quarter as compared to the preceding quarter.

Others

The marginal strengthening of the Indonesian Rupiah against the Malaysian Ringgit during the period under review as compared to the preceding quarter resulted in foreign exchange gains totaling RM0.4 million in the current quarter, as compared to the foreign exchange losses totaling RM6.1 million in the preceding quarter.

B3) PROSPECTS AND OUTLOOK

During the second quarter, the palm oil production recovery in Malaysia and Indonesia slowed a little resulting in a stabilization of prices from the downtrend experienced since 2017. This has mainly been due to a natural slowdown after a strong first quarter production combined with the Ramadan festive period which resulted in a reduced number of harvesters available due to the holiday season. As a result, stock levels of palm oil started to reduce, however, with a slower than anticipated pace because of lower exports into China and specifically India.

Nevertheless, stock levels of palm oil have therefore remained higher than initially anticipated, resulting in prices coming under pressure again. With employees returning after the Ramadan festive season and slower than expected exports combined with production starting to increase, prices during the end of the second quarter have resumed the downtrend reaching new lows of RM2150/MT not experienced since 2008. Further production increases are expected during the 3rd quarter of the year which will further build stocks and likely result in palm oil prices moving lower from current levels.

The 2018/2019 US soya bean crop yields are estimated to be historically high and the US end stocks 2018/2019 are estimated to be the largest in history with the stock use ratio to be the largest since 1987. This sharp increase in US soy bean supply is expected to add pressure on world vegetable oil prices. Furthermore, on top of the increased US soy bean supply the continuation of the US/China trade friction has also further pressured US soy bean prices. Meanwhile in Brazil and Argentina the farmers are expected to plant an extra 1.2-1.5 million hectares of soy beans hoping to benefit from the US/China trade friction, which is expected to further increase the world supply of soy beans. Nevertheless, the US/China situation is a current challenge and tensions may be resolved. The main bearish price impact is therefore expected to come from the increased supply from both the historic high US yields and the increased South American soy bean plantings.

The impact of world biodiesel production continues to be a key variable affecting the overall demand for vegetable oils and with that prices. During 2017, global usage of vegetable oils for biodiesel production was 35.20 million MT, equal to almost 16% of the world's 2017 Oils and Fats, emphasising this segment's significant role in terms of impacting demand and with that prices. For 2018, it is still anticipated that the production of biodiesel will exceed 2017 and with mineral oil prices having recovered to above USD 70/barrel combined with lower vegetable oil prices, the case for further increases of biodiesel production is highly likely thereby putting a floor to the downtrend in vegetable oil prices.

Any change in policies and production of biodiesel must therefore be watched closely as this will have a direct impact on the vegetable oil price complex going forward.

Notes To The Interim Financial Report

In accordance with its replanting policy, UP will continue to replant large areas of its older and less productive oil palm stands in Malaysia during 2018. Cost efficiencies and improved productivity will therefore continue as a vital part of sustaining our positive development.

With the prices contracted under our forward sales policy and with our Indonesian production improving coupled with large areas steadily coming into maturity from our replanted areas in Malaysia, the Board of Directors expects that the results for 2018 will be satisfactory.

B4) PROFIT FORECASTS

The Group has not issued any profit forecasts for the period under review.

B5) TAXATION

The charge for taxation for the period ended 30 June 2018 comprises:

(RM '000)	*Current Quarter*	*Current year-to-date*
Current taxation	26,298	54,669
Deferred taxation	(4,372)	7,435
	21,926	62,104
Profit before taxation	110,003	251,094
Tax at the statutory income tax rate of 24%	26,401	60,263
Tax effects of expenses not deductible / (income not taxable) in determining taxable profit:		
Depreciation on non-qualifying assets	268	536
Reinvestment allowance and double deductions for research and development	(82)	(165)
Under/(over) provision of tax in prior year	(1,696)	(1,696)
Others	(2,965)	3,166
Tax expense	21,926	62,104

B6) CORPORATE PROPOSALS

There were no corporate proposals which were announced but not completed as at 20 August 2018.

B7) GROUP BORROWINGS

All Group borrowings were unsecured, short term and denominated in Ringgit Malaysia only and outstanding balance as at 30 June 2018 was RM100,000.

Notes To The Interim Financial Report

B8) FINANCIAL INSTRUMENTS

a) **Derivatives**

The Group uses forward currency contracts and commodity futures contracts to manage its exposure to currency and price risks. These contracts are not designated as cash flow or fair value hedges and are entered into for periods consistent with currency transaction exposure and fair value changes exposure. Such derivatives do not qualify for hedge accounting.

The fair values of these derivatives as at 30 June 2018 are as follows:

	Contract/ Notional Amount RM'000	Assets RM'000	Liabilities RM'000
Non-hedging derivatives:			
Current			
Forward currency contracts	210,993	7,639	-
Commodity futures contracts	24,662	-	(4,877)
		7,639	(4,877)
Non-current			
Forward currency contracts	34,849	1,736	-
Commodity futures contracts	2,508	-	(749)
		1,736	(749)
Total derivatives		9,375	(5,626)

There is no change to the type of derivative financial contracts entered into, cash requirements of the derivatives, risk associated with the derivatives and the risk management objectives and policies to mitigate these risks since the financial year ended 31 December 2017.

The description, notional amount and maturity profile of each derivative are shown below:

i) <u>Forward currency contracts</u>

Forward currency contracts are used to hedge the Group's sales and purchases denominated in USD for which firm commitments existed at the reporting date.

The forward currency contracts are stated at fair value. Fair value of the forward currency contracts is determined by reference to the difference between the contracted rate and the market rate as at the reporting date.

As at 30 June 2018, the notional amount, fair value and maturity tenor of the forward currency contracts are as follows:

	Notional Amount RM'000	Fair Value Assets/ (Liabilities) RM'000
- less than 1 year	210,993	7,639
- 1 year to less than 3 years	34,849	1,736
- More than 3 years	-	-
	245,842	9,375

ii) Commodity futures contracts

Commodity futures contracts are used to manage and hedge the Group's exposure to adverse price movements in vegetable oil commodities

The commodity futures contracts are stated at fair value. Fair value of the commodity futures contracts is determined by reference to the difference between the contracted rate and the forward rate as at the reporting date.

As at 30 June 2018, the notional amount, fair value and maturity tenor of the commodity futures contracts are as follows:

	Notional Amount RM'000	Fair Value Assets/ (Liabilities) RM'000
- less than 1 year	24,662	(4,877)
- 1 year to less than 3 years	2,508	(749)
- More than 3 years	-	-
	27,170	(5,626)

b) **Fair Value Changes of Financial Liabilities**

Other than derivatives which are classified as liabilities only when they are at fair value loss position as at the end of the reporting period, the Group does not remeasure its financial liabilities at fair value after the initial recognition.

B9) MATERIAL LITIGATION

There was no material litigation as at 20 August 2018.

B10) PROPOSED DIVIDENDS

No interim dividend has been declared or proposed for the year ending 31 December 2018.

Notes To The Interim Financial Report

B11) **EARNINGS PER SHARE (EPS)**

The calculation of EPS is based on profit attributable to the ordinary equity holders of the parent company of RM187,746,000 (2017: RM191,277,000) and the weighted average number of ordinary shares of 207,792,492 (2017: 207,792,492) in issue during the period.

By Order of the Board

Ng Eng Ho
Company Secretary

Jendarata Estate
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Perak Darul Ridzuan
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20 August 2018

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