

Third Quarter Report 2020



UNITED PLANTATIONS BERHAD

(Company Registration No. 191701000045 (240 A))

Jendarata Estate • 36009 Teluk Intan • Perak Darul Ridzuan • Malaysia

United Plantations Berhad

Condensed Consolidated Statement of Comprehensive Income for the Nine Months Ended 30 September 2020 (The figures have not been audited)

(RM'000)	----- Quarter ended 30 September -----			----- 9 Months ended 30 September -----		
	2020	2019	Changes (%)	2020	2019	Changes (%)
Revenue	334,036	278,661	19.9%	947,262	871,457	8.7%
Operating expenses	(229,597)	(215,332)	6.6%	(592,759)	(646,313)	-8.3%
Other operating income	5,690	8,401	-32.3%	13,944	16,940	-17.7%
Finance costs	(6)	(7)	-14.3%	(20)	(21)	-4.8%
Interest income	4,563	4,085	11.7%	12,897	21,756	-40.7%
Share of results of joint venture	3,743	2,263	65.4%	4,410	2,624	68.1%
Profit before taxation	118,429	78,071	51.7%	385,734	266,443	44.8%
Income tax expense	(22,525)	(17,520)	28.6%	(84,242)	(62,652)	34.5%
Profit after taxation	95,904	60,551	58.4%	301,492	203,791	47.9%
Profit for the period	95,904	60,551	58.4%	301,492	203,791	47.9%
Net profit attributable to:						
Equity holders of the parent	95,325	60,199	58.3%	300,101	203,067	47.8%
Non-controlling interests	579	352	64.5%	1,391	724	92.1%
	95,904	60,551	58.4%	301,492	203,791	47.9%
Earnings per share						
(i) Basic - based on an average 414,784,984 (2019:414,784,984) ordinary shares (sen)	22.98	14.51	58.3%	72.35	48.96	47.8%
(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 2019.

For comparative purpose, the earnings per share for the quarter ended/period ended 30 September 2019 has been adjusted to reflect the bonus issue of 1 for every 1 existing ordinary share which was completed on 29 May 2020.

United Plantations Berhad

Condensed Consolidated Statement of Comprehensive Income for the Nine Months Ended 30 September 2020 (The figures have not been audited)

(RM'000)	----- Quarter ended 30 September -----			----- 9 Months ended 30 September -----		
	2020	2019	Changes (%)	2020	2019	Changes (%)
Profit for the period	95,904	60,551	58.4%	301,492	203,791	47.9%
Other comprehensive income:						
Items that will be reclassified subsequently to profit or loss:						
Currency translation differences arising from consolidation	(14,776)	1,364	-1183.3%	(10,700)	4,012	-366.7%
Cash flow hedge						
- changes in fair value	(37,785)	1,199	-3251.4%	9,272	16,248	-42.9%
- transfers to profit or loss	34,826	(2,184)	1694.6%	23,716	(11,832)	300.4%
Tax expense relating to components of other comprehensive income	710	236	200.8%	(7,917)	(1,060)	646.9%
Total Comprehensive income	78,879	61,166	29.0%	315,863	211,159	49.6%
Total comprehensive income attributable to:						
Equity holders of the parent	79,039	60,602	30.4%	315,011	210,095	49.9%
Non-controlling interests	(160)	564	-128.4%	852	1,064	-19.9%
	78,879	61,166	29.0%	315,863	211,159	49.6%

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 2019.

United Plantations Berhad

Condensed Consolidated Statement of Financial Position as at 30 September 2020 (The figures have not been audited)

(RM'000)	30 September 2020	31 December 2019
ASSETS		
Non-Current Assets		
Property, plant and equipment	1,189,048	1,191,913
Right-of-use assets	389,027	391,093
Associated company	50	50
Joint Venture	33,278	28,868
Goodwill	356,856	356,856
Other receivables	10,954	10,954
Derivatives	213	452
Deferred tax assets	4,421	4,200
Total non-current assets	1,983,847	1,984,386
Current Assets		
Biological assets	37,045	32,677
Inventories	151,154	123,664
Trade & other receivables	206,033	237,104
Prepayments	161	1,251
Tax recoverable	13,580	13,957
Derivatives	8,666	5,767
Cash and bank balances	154,266	91,613
Short term funds	407,576	367,792
Total current assets	978,481	873,825
Total assets	2,962,328	2,858,211
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	390,054	390,054
Treasury shares	(18,668)	(18,668)
Other reserves	(573)	(16,049)
Retained profits	2,271,024	2,189,251
	2,641,837	2,544,588
Non-controlling interests	10,047	9,195
Total equity	2,651,884	2,553,783
Non-Current Liabilities		
Deferred tax liabilities	165,746	154,281
Retirement benefit obligations	16,769	15,323
Derivatives	-	8,112
Total non-current liabilities	182,515	177,716
Current Liabilities		
Trade & other payables	81,376	91,807
Tax payable	44,043	11,229
Retirement benefit obligations	2,410	2,410
Derivatives	-	21,166
Bank borrowings	100	100
Total current liabilities	127,929	126,712
Total liabilities	310,444	304,428
Total equity and liabilities	2,962,328	2,858,211
Net assets per share (RM)	6.37	6.12

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 2019.

For comparative purpose, the net assets per share as at 31 December 2019 has been adjusted to reflect the bonus issue of 1 for every 1 existing ordinary share which was completed on 29 May 2020.

United Plantations Berhad

Condensed Statement of Changes in Equity for the Nine Months Ended 30 September 2020 (The figures have not been audited)

	← Attributable to Equity Holders of the Parent →						Total	Non-controlling interests	Total equity
	Share Capital	Treasury shares	Retained profits	Cash flow hedge reserve	Capital reserve	Translation reserve			
(RM'000)									
Balance at									
1 January 2020	390,054	(18,668)	2,189,251	(22,235)	21,798	(15,612)	2,544,588	9,195	2,553,783
Total comprehensive income for the period	-	-	300,101	25,071	-	(10,161)	315,011	852	315,863
Transfer to capital reserve	-	-	(566)	-	566	-	-	-	-
Dividends, representing total transaction with owners	-	-	(217,762)	-	-	-	(217,762)	-	(217,762)
Balance at 30 September 2020	390,054	(18,668)	2,271,024	2,836	22,364	(25,773)	2,641,837	10,047	2,651,884
Balance at									
1 January 2019	390,054	(8,635)	2,196,542	352	21,798	(19,022)	2,581,089	7,828	2,588,917
Total comprehensive income for the period	-	-	203,067	3,356	-	3,672	210,095	1,064	211,159
Purchase of treasury shares	-	(10,033)	-	-	-	-	(10,033)	-	(10,033)
Dividends, representing total transaction owners	-	-	(228,572)	-	-	-	(228,572)	-	(228,572)
Balance at 30 September 2019	390,054	(18,668)	2,171,037	3,708	21,798	(15,350)	2,552,579	8,892	2,561,471

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 2019.

United Plantations Berhad

Condensed Consolidated Cash Flow Statements for the Nine Months Ended 30 September 2020 (The figures have not been audited)

(RM'000)	9 Months ended 30 September	
	2020	2019
Operating Activities		
-Receipts from operations	953,104	851,815
-Operating payments	(562,852)	(551,746)
Cash flow from operations	390,252	300,069
Other operating receipts	13,273	18,246
Taxes paid	(47,960)	(75,080)
Cash flow from operating activities	355,565	243,235
Investing Activities		
- Proceeds from sale of property, plant and equipment	671	481
- Interest received	12,428	20,427
- Acquisition of a business	-	(395,743)
- Purchase of property, plant and equipment	(73,980)	(69,222)
- Payment for right-of-use assets	(188)	(372)
- Net change in short term funds	(39,784)	381,390
Cash flow from investing activities	(100,853)	(63,039)
Financing Activities		
- Dividends paid	(217,762)	(228,572)
- Finance costs paid	(20)	(21)
- Associated company	(8)	5
- Joint venture	25,731	556
- Purchase of treasury shares	-	(10,033)
Cash flow from financing activities	(192,059)	(238,065)
Net Change in Cash & Cash Equivalents	62,653	(57,869)
Cash & Cash Equivalents at beginning of year	91,513	202,289
Cash & Cash Equivalents at end of period	154,166	144,420

The Condensed Consolidated Cash Flow Statements should be read in conjunction with the Annual Audited Financial Statements for the year ended 31 December 2019.

Short Term Funds of RM407,576,000 (2019: RM322,021,000) are excluded from Cash Flow Statements due to reclassification of Short Term Funds from Cash & Cash Equivalents.

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 2019. 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 2019.

The interim financial statements of the Group for the financial period ended 30 September 2020 was prepared in accordance with the Malaysian Financial Reporting Standards (“MFRS”) Framework.

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:

<u>MFRS, IC Interpretation and Amendments to IC Interpretations</u>	<u>Effective for annual periods beginning on or after</u>
• MFRS 17 Insurance Contracts	1 Jan 2021
• Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 Jan 2022
• Amendments to MFRS 116: Property, Plant and Equipment	1 Jan 2022
• Amendments to MFRS 137: Provisions, Contingent Liabilities and Contingent Assets	1 Jan 2022
• Amendments to MFRS1 First-time Adoption of Malaysian Financial Reporting Standards	1 Jan 2022
• Amendments to MFRS 9 Financial Instruments Arrangements	1 Jan 2022
• Amendments to MFRS 16 Leases – Illustrative Examples	1 Jan 2022
• Amendments to MFRS 141 Agriculture	1 Jan 2022
• Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

A2) AUDIT REPORT

The auditor’s report on the financial statements for the financial year ended 31 December 2019 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.

United Plantations Berhad

Notes To The Interim Financial Report

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 period.

A6) EQUITY AND DEBT SECURITIES

As at 30 September 2020, the number of treasury shares held was 1,483,548 shares subsequent to the bonus issue of 1 for 1 on 29 May 2020. There were no share buy-back nor any cancellation, re-sale or distribution of treasury shares in the current period. Besides the bonus issue, there was no issuance of new shares or debt instruments in the current period.

A7) DIVIDENDS PAID

The following dividends were paid on 8 May 2020 in respect of the financial year ended 31 December 2019: -

Ordinary	RM'000
Second Interim Dividend of 20 sen paid	41,478
Second Interim Special Dividend of 85 sen paid	<u>176,284</u>
Total	<u>217,762</u>

A8) SEGMENTAL INFORMATION

Segmental information for the current period:

(RM'000)	Plantations	Refining	Other Segments	Elimination	Total
Segment Revenue:					
External sales	355,930	590,320	1,012	-	947,262
Inter-segment sales	260,069	-	-	(260,069)	-
	615,999	590,320	1,012	(260,069)	947,262
Segment Results:					
Profit before tax	334,640	44,644	6,450	-	385,734

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 2019.

A10) EVENTS AFTER THE BALANCE SHEET DATE

There were no material events after the balance sheet date.

United Plantations Berhad

Notes To The Interim Financial Report

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 7 November 2020.

B1) DIRECTORS' ANALYSIS OF THE GROUP'S PERFORMANCE FOR 9 MONTHS ENDED 30 SEPTEMBER 2020

The Group's revenue for the current period at RM947.3 million was higher by 8.7% as compared to RM871.5 million recorded in the corresponding period, mainly due to the increase in revenue for the plantation segment by 20.2%.

The Group's profit before tax at RM385.7 million for the current period was higher by 44.8% as compared to RM266.4 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 increased by 20.2% to RM616.0 million in the current period from RM512.3 million in the corresponding period. This increase was mainly due to higher Group CPO and PK production, and higher Group CPO and PK average prices.

Group CPO and PK production increased by 10.8% and 9.4% respectively whereas average Group CPO and PK prices increased by 11.8% and 24.2% respectively compared to the corresponding period. The Group cost of production per MT of CPO and PK were lower by 8.0% and 8.1% respectively in the current period as the result of higher production. Consequently, the profit before tax of this segment surged by 62.8% to RM334.6 million from RM205.5 million in the corresponding period. The average selling prices of CPO and PK are as shown below:

Countries	Products	September 2020 Current Period (RM/MT)	September 2019 Corresponding Period (RM/MT)
Malaysia	CPO	2,561	2,320
Indonesia	CPO	2,211	1,900
Average	CPO	2,495	2,232
Malaysia	PK	1,603	1,276
Indonesia	PK	1,159	1,002
Average	PK	1,518	1,222

Interest income for the Group was lower by 40.7% in the current period as compared to the corresponding period mainly due lower bank deposits and lower rates. The lower bank deposits were due to the acquisition of 8,999 acres of agricultural land in 2019.

Refinery

The revenue for the refinery segment increased marginally by 1.2% to RM590.3 million in the current period from RM583.4 million in the corresponding period mainly due to higher prices despite lower sales volume by 7.3% in the current period. Profit before tax, including contribution from the joint venture company, at RM44.6 million was 13.6% lower than the RM51.7 million recorded in the corresponding period mainly due to unfavourable hedging positions of raw materials in the current period which nevertheless is expected to reverse in the coming quarters upon delivery of the finished goods.

United Plantations Berhad

Notes To The Interim Financial Report

Others

As a result of the Indonesian Rupiah (IDR) weakening by 5.5% against Malaysian Ringgit in the current period, the holding company's investment in Indonesia recorded a total of RM1.8 million in foreign exchange losses from IDR loan extended to an Indonesian subsidiary in the current period, as compared to the foreign exchange gains totaling RM1.7 million reported in the corresponding period.

B2) COMPARISON OF RESULTS WITH PRECEDING QUARTER

(RM'000)	Current Quarter 30/9/2020	Preceding Quarter 30/6/2020	Changes %
Revenue	334,036	294,317	13.5%
Interest income	4,563	4,218	8.2%
Profit Before Tax	118,429	149,661	-20.9%
Profit After Tax	95,904	124,060	-22.7%

The Group's revenue for the current quarter at RM334.0 million was higher by 13.5% as compared to RM294.3 million recorded in the preceding quarter, due to the increase in the revenue from the plantation and refinery segments by 3.8% and 27.3% respectively in the current quarter.

However, the profit before tax for the current quarter at RM118.4 million was lower by 20.9% as compared to RM149.7 million recorded in the preceding quarter mainly due to 97.8% decrease in contribution from the refinery segment. The quarterly segmental analysis are as follows:

Plantations

The plantation segment registered an increase in revenue of 3.8% in the current quarter from the preceding quarter mainly due to higher Group CPO and PK production by 7.6% and 9.7% respectively as compared to the preceding quarter. With higher production and lower manuring costs, the costs of production of CPO and PK were lower by 2.3% and 2.0% respectively in the current quarter. The Group average CPO and PK prices were lower by 0.9% and 15.9% respectively compared to the preceding quarter.

Interest income for the Group was higher by 8.2% in the current quarter as compared to the preceding quarter due to higher bank deposits in the current quarter.

Refinery

The refinery segment recorded an increase in revenue of 27.3% in the current quarter mainly due to higher sales volume in the current quarter as compared to the preceding quarter. The profit before tax for the current quarter was lower by 97.8% as compared to the preceding quarter mainly due to unfavourable hedging positions of raw materials in the current quarter which nevertheless is expected to reverse in the coming quarters upon delivery of the finished goods.

Others

The weakening of the Indonesian Rupiah against the Malaysian Ringgit by 7.3% during the current quarter resulted in foreign exchange losses totaling RM2.1 million in the current quarter against the foreign exchange gains totaling RM4.6 million in the preceding quarter.

Notes To The Interim Financial Report

B3) PROSPECTS AND OUTLOOK

The Covid-19 situation continues to make the main headline for 2020 and is still having a major impact on world markets. Normal supply/demand factors are still relevant. However, the bulk of the news headlines are related to the pandemic. A direct Covid-19 related factor which the Malaysian Palm Oil Industry must take into consideration is the likely disruption in production caused by labour shortages, presently estimated to be about 90,000 workers, as a result of the Malaysian Government closing its borders until at least the end of the calendar year.

As a result, the impact on palm oil production are expected to increase gradually in Q4 2020 and become acutely serious in 2021 as guest workers (who make up around 80% percent of the total labor force in the Malaysian plantation sector) are allowed to leave the country but cannot re-enter until the borders are reopened. If the Malaysian Government does not provide an urgent yet safe avenue to recruit guest workers, it will become impossible to avoid serious crop losses in 2021 as the acute labour shortages will by then reach a breaking point. This may very likely result in higher palm oil prices due to a reduced production. Until the virus is subdued or a vaccine is found, the Company predicts that vegetable oil markets will continue to experience a high degree of volatility.

Palm oil prices started the year at RM3,100/mt but fell to a low of RM1,939/mt at the beginning of May, after which prices had recovered by the end of September to close at RM3,000/mt for the 3rd month position on the futures market.

Whilst UP has so far managed to avoid a Covid-19 outbreak, the Company has to remain vigilant and will continue to enforce the various standard operating procedures introduced by the Government as well as by our Group. With the escalation of Covid-19 around the World and in Malaysia during September 2020, it is of utmost importance to keep our guard up in order to minimise the risk of Covid-19 entering UP's premises which would result in a temporary shut-down of its factories or plantation operations. The Board views this as being the single largest risk in the foreseeable future and due attention is therefore being directed towards doing everything that is practically possible to mitigate this risk. In spite of the above, the Board nevertheless wishes to emphasize that with UP's positive liquidity and conservative capital resources, we believe that the Company, based on the present fundamentals, will be able to perform satisfactorily without the need for any asset impairments arising from the current Covid-19 pandemic.

On the weather front, the Australian Bureau of Meteorology on the 16th September officially announced that the weather phenomenon "La Nina" is expected to last until at least January 2021. La Nina potentially has a negative impact on soy bean production in the southern states of the US as well as South America, such as southern Brazil and Argentina which traditionally experience severe dry conditions during La Nina periods. In regards to Malaysia and Indonesia, these countries typically receive more than average rainfall during a La Nina event and GAPKI (Palm Oil Association of Indonesia) has announced that La Nina is likely to boost Indonesian production of palm oil by 4% to 49 million mt. in 2021. Nevertheless, the current weather models do not indicate that the event will be as strong as the La Nina of 2010-2012, which was the fourth-strongest La Nina on record. Therefore the price impacts may be limited.

For 2020/21, United States Department of Agriculture (USDA) lowered the Global oilseed production to 605.5 million tons, down 3.7 million from their latest estimated due to reduced sunflowerseed production, principally in Ukraine, but also in the EU, Argentina, and Moldova, and lower soybean production in the United States. In South America, the first 2021 soybean crop estimate (CONAB) has been pegged at 133.7 million mt. from an area of 37.9 million ha compared with 124.8 million mt. this year from 36.95 million ha subject to a mild La Nina. This indicates some potential bearishness in prices for Soybean.

In China, the soybean imports for the year are estimated to total nearly 98 million mt, up from the previous estimate of 96 million mt, according to Chinese Agriculture Supply and Demand Estimate (Casde). China's Veg oil imports for 2019/20 are also estimated to grow year-on-year

United Plantations Berhad

Notes To The Interim Financial Report

to 9.27 million mt, up from 8.96 million mt in the previous year, mainly due to a major fall in the imports of rapeseeds.

Whilst there has been a recovery in Malaysian Palm Oil exports during the 3rd quarter 2020 compared with the previous quarters, the overall export is still down by 8.8% compared with 2019. The Brent oil discount to palm oil is around 400 USD/mt which is the lowest discount since early 2016, thereby, adding pressure on the Biodiesel industry. These two factors are bearish for palm oil prices.

For 4th quarter 2020 and 1st quarter 2021, markets are expected to continue to experience high volatility mainly influenced by the development of the Covid 19 pandemic and its impact on the world economy and also perhaps to the outcome of the US Presidential election.

UP will, in accordance with its replanting policy, continue to replant areas of its older and less productive oil palm stands in Malaysia during 2020. Cost efficiencies and improved productivity will therefore continue as a vital part of sustaining our positive development going forward.

With the significant uncertainties related to the consequences of the Covid-19 pandemic, it is difficult to predict the results for 2020, as much can still happen. However, based on the prices contracted under the Company's forward sales policy and with production having increased due to large areas steadily coming into maturity from our replanted areas in Malaysia, the Board of Directors expect that the results for the year will be satisfactory and significantly better than in 2019.

B4) PROFIT FORECASTS

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

B5) OPERATING PROFIT

Included in the operating profit are the following:

<i>(RM'000)</i>	<i>Current Quarter</i>	<i>Current year-to-date</i>
Depreciation and amortisation	(24,672)	(73,751)
Realised foreign exchange gains/(losses)	(2,317)	(2,581)
Unrealised foreign exchange gains/(losses)	(1,538)	(778)
Fair value gains/(losses):		
- Forward foreign exchange contracts	9,309	131
- Commodities futures contracts	(29,631)	(5,840)
Gain/(loss) on disposal of property, plant and equipment	36	821

United Plantations Berhad

Notes To The Interim Financial Report

B6) TAXATION

The charge for taxation for the period ended 30 September 2020 comprises:

<i>(RM '000)</i>	<i>Current Quarter</i>	<i>Current year-to-date</i>
Current taxation	17,909	81,151
Deferred taxation	4,616	3,091
	<u>22,525</u>	<u>84,242</u>
Profit before taxation	118,429	385,734
Tax at the statutory income tax rate of 24%	28,423	92,576
Tax effects of expenses not deductible / (income not taxable) in determining taxable profit:		
Depreciation on non-qualifying assets	268	804
Double deductions for research and development	(74)	(90)
Others	(6,092)	(9,048)
Tax expense	<u>22,525</u>	<u>84,242</u>

B7) CORPORATE PROPOSALS

There were no corporate proposals which were announced but not completed as at 7 November 2020.

B8) GROUP BORROWINGS

All Group borrowings were unsecured, short term and denominated in Ringgit Malaysia only and outstanding balance as at 30 September 2020 was RM100,000.

B9) FINANCIAL INSTRUMENTS

a) Derivatives

Derivatives not designated as hedging instruments

The Group uses forward currency contracts and commodity futures contracts to manage its exposure to currency and price risks, as well as to take advantage of favourable market conditions. The forward currency contract is not designated as cash flow or fair value hedges and is entered into for periods consistent with currency transaction exposure and fair value changes exposure. Such derivatives do not qualify for hedge accounting.

Derivatives designated as hedging instruments – Cash flow hedge

Commencing from 1 October 2018, the Group has designated certain commodity futures contracts as hedging derivatives to reduce the volatility attributable to price fluctuations of crude palm oil ("CPO"). Hedging of the price volatility of forecast CPO is in accordance with the risk management strategy outlined by the Board of Directors.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the commodity price and commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the commodity price and commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

United Plantations Berhad

Notes To The Interim Financial Report

The fair values of these derivatives as at 30 September 2020 are as follows:

	Net Notional Amount Sales / (Purchases) RM'000	Assets RM'000	Liabilities RM'000
Current			
Non-hedging derivatives:			
Forward currency contracts	450,131	1,494	-
Commodity futures contracts	(298,580)	3,442	-
Hedging derivatives:			
Commodity futures contracts	247,985	3,730	-
		<u>8,666</u>	<u>-</u>
Non-current			
Non-hedging derivatives:			
Forward currency contracts	6,495	213	-
Hedging derivatives:			
Commodity futures contracts	-	-	-
		<u>213</u>	<u>-</u>
Total derivatives		<u>8,879</u>	<u>-</u>

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 2019.

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

i) Forward currency contracts

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 September 2020, the notional amount, fair value and maturity tenor of the forward currency contracts are as follows:

	Net Notional Amount Sales / (Purchases) RM'000	Fair Value Assets/ (Liabilities) RM'000
- less than 1 year	450,131	1,494
- 1 year to less than 3 years	6,495	213
- More than 3 years	-	-
	<u>456,626</u>	<u>1,707</u>

Notes To The Interim Financial Report

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 September 2020, the notional amount, fair value and maturity tenor of the commodity futures contracts are as follows:

	Net Notional Amount Sales / (Purchases) RM'000	Fair Value Assets/ (Liabilities) RM'000
- less than 1 year	(50,595)	7,172
- 1 year to less than 3 years	-	-
- More than 3 years	-	-
	<u>(50,595)</u>	<u>7,172</u>

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.

B10) **MATERIAL LITIGATION**

There was no material litigation as at 7 November 2020.

B11) **PROPOSED DIVIDENDS**

The Directors have on 7 November 2020 declared an interim single-tier dividend of 15 sen per share (2019: 20 sen per share) and a special single-tier dividend of 5 sen per share (2019: 10 sen per share) for the year ending 31 December 2020 on the issued ordinary share capital of the Company. The dividend is payable on 4 December 2020.

B12) **EARNINGS PER SHARE (EPS)**

The calculation of EPS is based on profit attributable to the ordinary equity holders of the parent company of RM300,101,000 (2019: RM203,067,000) and the weighted average number of ordinary shares in issue of 414,784,984 (2019: 414,784,984) in issue during the period.

For comparative purpose, the earnings per share for the quarter ended/period ended 30 September 2019 had been adjusted to reflect the bonus issue of 1 for every 1 existing ordinary share which was completed on 29 May 2020.

Notes To The Interim Financial Report

By Order of the Board

Ng Eng Ho
Company Secretary

Jendarata Estate
36009 Teluk Intan
Perak Darul Ridzuan
Malaysia
7 November 2020

Contact information

United Plantations Berhad
Jendarata Estate
36009 Teluk Intan
Perak Darul Ridzuan
Malaysia

Company Secretary:	Mr. Ng Eng Ho
E-mail:	up@unitedplantations.com
Phone:	006 05 6411411
Fax:	006 05 6411876
Website:	www.unitedplantations.com