PETRONAS CHEMICALS GROUP BERHAD

Quarterly Report

For Second Quarter Ended 30 June 2017

PETRONAS CHEMICALS GROUP BERHAD (459830-K)

QUARTERLY REPORT

FOR SECOND QUARTER ENDED 30 JUNE 2017

PETRONAS

The Board of Directors of PETRONAS Chemicals Group Berhad ("PCG" or the "Company") is pleased to announce the following unaudited condensed consolidated financial statements for the quarter ended 30 June 2017 which should be read in conjunction with the accompanying explanatory notes on pages 6 to 17.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Individual quarter ended 30 June		Cumulative quarter ended 30 June	
In RM Mil	**Note**	**2017**	**2016**	**2017**	**2016**
Revenue		**3,959**	3,202	**8,654**	6,349
Cost of revenue		**(2,526)**	(1,988)	**(5,268)**	(4,038)
Gross profit		**1,433**	1,214	**3,386**	2,311
Selling and distribution expenses		**(189)**	(171)	**(373)**	(333)
Administration expenses		**(137)**	(175)	**(314)**	(297)
Other expenses		**(5)**	(169)	**(17)**	(294)
Other income		**64**	44	**123**	247
Operating profit	**B5**	**1,166**	743	**2,805**	1,634
Net financing (costs)/income	**B6**	**(4)**	32	**(10)**	32
Share of profit of equity-accounted joint ventures and associates, net of tax		**-**	8	**3**	13
Profit before taxation		**1,162**	783	**2,798**	1,679
Tax expense	**B7**	**(139)**	(250)	**(394)**	(475)
PROFIT FOR THE PERIOD		**1,023**	533	**2,404**	1,204
Other comprehensive (expenses)/income					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		**(385)**	98	**(537)**	(228)
Share of other comprehensive (expenses)/ income of equity-accounted joint ventures and associates		**(35)**	30	**(50)**	(83)
Total other comprehensive (expenses)/ income for the period		**(420)**	128	**(587)**	(311)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**603**	661	**1,817**	893
Profit attributable to:					
Shareholders of the Company		**964**	462	**2,259**	1,054
Non-controlling interests		**59**	71	**145**	150
PROFIT FOR THE PERIOD		**1,023**	533	**2,404**	1,204
Total comprehensive income attributable to:					
Shareholders of the Company		**544**	590	**1,672**	743
Non-controlling interests		**59**	71	**145**	150
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**603**	661	**1,817**	893
Basic earnings per share attributable to shareholders of the Company:					
Based on ordinary shares issued (sen)	**B18**	**12**	6	**28**	13

The unaudited condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RM Mil	Note	As at 30.06.2017	As at 31.12.2016
ASSETS			
Property, plant and equipment		19,004	18,543
Prepaid lease payments		47	-
Investments in associates and joint ventures		1,297	1,363
Intangible assets		2	3
Long term receivables		36	83
Deferred tax assets		439	462
TOTAL NON-CURRENT ASSETS		20,825	20,454
Trade and other inventories		1,578	1,383
Trade and other receivables		2,423	2,639
Tax recoverable		60	69
Cash and cash equivalents		7,580	7,403
TOTAL CURRENT ASSETS		11,641	11,494
TOTAL ASSETS		32,466	31,948
EQUITY			
Share capital		8,871	800
Reserves		18,883	26,242
Total equity attributable to shareholders of the Company		27,754	27,042
Non-controlling interests		1,271	1,271
TOTAL EQUITY		29,025	28,313
LIABILITIES			
Deferred tax liabilities		853	874
Other long term liabilities and provisions		258	308
TOTAL NON-CURRENT LIABILITIES		1,111	1,182
Borrowings	B11	-	23
Trade and other payables		2,040	2,208
Current tax payables		290	180
Dividend payables		-	42
TOTAL CURRENT LIABILITIES		2,330	2,453
TOTAL LIABILITIES		3,441	3,635
TOTAL EQUITY AND LIABILITIES		32,466	31,948

The unaudited condensed consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company				
	Non-distributable				
In RM Mil	**Share Capital**	**Share Premium**	**Foreign Currency Translation Reserve**	**Merger Reserve**	**Other Reserves**
Cumulative quarter ended 30 June 2016					
At 1 January 2016	800	8,071	436	(204)	487
Foreign currency translation differences	-	-	(228)	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(83)
Total other comprehensive expenses for the period	-	-	(228)	-	(83)
Profit for the period	-	-	-	-	-
Total comprehensive expenses for the period	-	-	(228)	-	(83)
Redemption of Redeemable Preference Shares in a subsidiary	-	-	-	-	13
Dividends to shareholders of the Company	-	-	-	-	-
Dividends to non-controlling interests	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	13
Balance at 30 June 2016	800	8,071	208	(204)	417
Cumulative quarter ended 30 June 2017					
At 1 January 2017	800	8,071	1,077	(204)	550
Foreign currency translation differences	-	-	(537)	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(50)
Total other comprehensive expenses for the period	-	-	(537)	-	(50)
Profit for the period	-	-	-	-	-
Total comprehensive expenses for the period	-	-	(537)	-	(50)
Redemption of Redeemable Preference Shares in a subsidiary	-	-	-	-	24
Dividends to shareholders of the Company	-	-	-	-	-
Dividends to non-controlling interests	-	-	-	-	-
Transition in accordance with section 618(2) of the Companies Act 2016 to no-par value regime on 31 January 2017 [Note a]	8,071	(8,071)	-	-	-
Total transactions with shareholders	8,071	(8,071)	-	-	24
Balance at 30 June 2017	8,871	-	540	(204)	524

continue to next page

Note a: Pursuant to section 74 of the Companies Act, 2016 ('the Act'), the Company's shares no longer have a par or nominal value with effect from 31 January 2017. In accordance with the transitional provision set out in section 618 of the Act, any amount standing to the credit of the share premium account becomes part of the Company's share capital. Companies have 24 months upon the commencement of the Act to utilise the credit.

There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition. During the financial period, the Company has not utilised any of the credit in the share premium account which are now part of share capital.

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to shareholders of the Company			
	Distributable			
In RM Mil	**Retained Profits**	**Total**	**Non-controlling Interests**	**Total Equity**
Cumulative quarter ended 30 June 2016				
At 1 January 2016	15,193	24,783	1,807	26,590
Foreign currency translation differences	-	(228)	-	(228)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(83)	-	(83)
Total other comprehensive expenses for the period	-	(311)	-	(311)
Profit for the period	1,054	1,054	150	1,204
Total comprehensive expenses for the period	1,054	743	150	893
Redemption of Redeemable Preference Shares in a subsidiary	(13)	-	(11)	(11)
Dividends to shareholders of the Company	(800)	(800)	-	(800)
Dividends to non-controlling interests	-	-	(463)	(463)
Total transactions with shareholders	(813)	(800)	(474)	(1,274)
Balance at 30 June 2016	15,434	24,726	1,483	26,209
Cumulative quarter ended 30 June 2017				
At 1 January 2017	16,748	27,042	1,271	28,313
Foreign currency translation differences	-	(537)	-	(537)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(50)	-	(50)
Total other comprehensive expenses for the period	-	(587)	-	(587)
Profit for the period	2,259	2,259	145	2,404
Total comprehensive expenses for the period	2,259	1,672	145	1,817
Redemption of Redeemable Preference Shares in a subsidiary	(24)	-	-	-
Dividends to shareholders of the Company	(960)	(960)	-	(960)
Dividends to non-controlling interests	-	-	(145)	(145)
Transition in accordance with section 618(2) of the Companies Act 2016 to no-par value regime on 31 January 2017	-	-	-	-
Total transactions with shareholders	(984)	(960)	(145)	(1,105)
Balance at 30 June 2017	18,023	27,754	1,271	29,025

continued from previous page

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS [Note b]

In RM Mil	Cumulative quarter ended 30 June 2017	2016
Profit before tax	**2,798**	1,679
Adjustments for:		
Depreciation and amortisation	**752**	658
Finance costs	**10**	(32)
Interest income	**(96)**	(135)
Share of profit equity-accounted joint ventures and associates	**(3)**	(13)
Other non-cash items	**19**	194
Operating profit before changes in working capital	**3,480**	2,351
Change in trade and other receivables	**218**	36
Change in trade inventories	**(199)**	33
Change in trade and other payables	**(400)**	(528)
Cash generated from operations	**3,099**	1,892
Interest income from fund and other investments	**92**	146
Taxation paid	**(264)**	(272)
Net cash generated from operating activities	**2,927**	1,766
Dividends received from equity-accounted joint ventures and associates	**44**	32
Increase in investment in an associate	**(24)**	-
Purchase of property, plant and equipment	**(1,500)**	(1,311)
Withdrawal of Islamic deposits	**-**	622
Net cash used in investing activities	**(1,480)**	(657)
Dividends paid to:		
- PETRONAS	**(618)**	(515)
- others (third parties)	**(342)**	(285)
- non-controlling interests of subsidiaries	**(187)**	(463)
Payment to non-controlling interests on redemption of shares	**-**	(11)
Repayment of:		
- finance lease liabilities	**(28)**	(28)
- revolving credit	**(23)**	(15)
Net cash used in financing activities	**(1,198)**	(1,317)
Net cash flows from operating, investing and financing activities	**249**	(208)
Effects of foreign currency translation differences	**(19)**	(4)
Net increase/(decrease) in cash and cash equivalents	**230**	(212)
Net foreign exchange differences on cash held	**(53)**	(44)
Cash and cash equivalents at beginning of the period	**7,403**	8,707
Cash and cash equivalents at end of the period	**7,580**	8,451

Note b: As of 1 January 2017, the Group has changed the presentation format of the Statement of Cash Flows from direct method to indirect method so as to provide better information to the users of its financial statements.

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. BASIS OF PREPARATION

The condensed financial statements are unaudited and have been prepared in accordance with IAS 34, MFRS 134, Interim Financial Reporting and paragraph 9.22 of Bursa Malaysia Securities Berhad's Main Market Listing Requirements. They should also be read in conjunction with the financial statements of the Group for the year ended 31 December 2016 and the accompanying notes attached to the unaudited condensed consolidated financial statements.

Within the context of these unaudited condensed consolidated financial statements, the Group comprises the Company and its subsidiaries, and the Group's interest in joint ventures and associates as at and for the quarter ended 30 June 2017.

A2. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the same accounting policies and methods of computation are followed in the condensed consolidated financial statements as compared with the consolidated financial statements for 31 December 2016.

As of 1 January 2017, the Group has adopted the following MFRSs and amendments (collectively referred to as "pronouncements") which are effective for annual years beginning on or after 1 January 2017.

Effective for annual periods beginning on or after 1 January 2017

Amendments to MFRS 12	*Disclosure of Interests in Other Entities (Annual Improvements 2014 – 2016 Cycle)*
Amendments to MFRS 107	*Statement of Cash Flows: Disclosure Initiative*
Amendments to MFRS 112	*Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

A3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The audited financial statements of PCG and its subsidiaries for the year ended 31 December 2016 were not subject to any audit qualification.

A4. SEASONALITY OR CYCLICALITY OF OPERATIONS

The prices of petrochemical products and their underlying feedstock are subject to significant fluctuations as they are influenced both by global supply and demand as well as movements in the prices of key commodities such as crude oil and natural gas. Consequently, margins have historically been cyclical and are sensitive to supply and demand imbalances both domestically and internationally. Supply is affected by significant capacity expansions by producers, and if such additions are not matched by corresponding growth in demand, which is generally linked to the level of economic activity, average industry operating margins will face downward pressures. As a result, the petrochemical cycle is characterised by years of tight supply, leading to high capacity utilisation rates and margins, followed by years of oversupply, primarily resulting from significant capacity additions, leading to reduced capacity utilisation rates and margins.

A5. EXCEPTIONAL ITEMS

There was no exceptional item during the quarter under review.

A6. MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates of the amounts reported in the most recent annual financial statements of PCG and its subsidiaries for the year ended 31 December 2016 that may have a material effect in the results of the quarter under review.

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134 (continued)

A7. DEBT AND EQUITY SECURITIES

There were no material issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the quarter under review.

A8. DIVIDEND PAID

During the period under review, the Company paid a second interim single tier dividend of 12 sen per ordinary share, amounting to RM960 million in respect of the financial year ended 31 December 2016 to shareholders on 7 March 2017.

A9. OPERATING SEGMENTS

- Olefins and Derivatives – activities include manufacturing and marketing of a wide range of olefins, intermediate, basic and high performance chemicals, and polymer products.
- Fertilisers and Methanol – activities include manufacturing and marketing of methanol and a range of nitrogen, phosphate and compound fertilisers.
- Others – other non-reportable segments comprise operations related to investment holding company and port services which provide product distribution infrastructure to the Group.

9.1 Revenue

	Cumulative quarter ended 30 June					
	2017	2016	2017	2016	2017	2016
In RM Mil	Third Parties		Inter-segment		Gross Total	
Olefins and Derivatives	5,754	4,379	7	5	5,761	4,384
Fertilisers and Methanol	2,875	1,944	77	83	2,952	2,027
Others	25	26	21	20	46	46
Total	8,654	6,349	105	108	8,759	6,457

9.2 Segment Profit for the Period[1]

	Cumulative quarter ended 30 June	
In RM Mil	2017	2016
Olefins and Derivatives	1,548	773
Fertilisers and Methanol	849	411
Others	7	20
Total	2,404	1,204

[1] Included within profit for the quarter for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM418 million (2016: RM391 million), RM323 million (2016: RM258 million) and RM11 million (2016: RM9 million) respectively.

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134 (continued)

A10. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

There were no revaluations of property, plant and equipment for the period under review. As at 30 June 2017, all property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

A11. CONTINGENCIES

There were no material contingent liabilities or contingent assets since the last consolidated statement of financial position as at 31 December 2016.

A12. CHANGES IN COMPOSITION OF THE GROUP

There was no material change in the composition of the Group.

A13. CAPITAL COMMITMENTS

Capital expenditures which have not been provided for at the end of each reporting period are as follows:

In RM Mil	**As at 30.6.2017**	**As at 31.12.2016**
Property, plant and equipment:		
Approved and contracted for	**4,918**	6,216
Approved but not contracted for	**5,000**	4,719
	9,918	10,935

Included in the above are amounts of RM9,214 million (2016: RM9,302 million) relating to the petrochemicals projects within the Pengerang Integrated Complex (PIC) in Pengerang, Johor.

A14. FAIR VALUE INFORMATION

The carrying amounts of cash and cash equivalents, and short term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable input).

The Group recognises transfer between levels of fair value hierarchy as of the date of the event or change in circumstances that caused the transfer.

Forward foreign exchange contracts

The fair value of forward foreign exchange contracts is based on the difference between the contracted forward rates and the mark-to-market rates. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract.

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134 (continued)

A14. FAIR VALUE INFORMATION (continued)

Finance lease liabilities

The fair values of finance lease liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

The following table analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

As at 30 June 2017
Fair value of financial instruments carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Total
Financial assets				
Forward foreign exchange contracts	-	4	-	4
Financial liabilities				
Forward foreign exchange contracts	-	(5)	-	(5)

Fair value of financial instruments not carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Carrying amount	Total fair value
Financial liabilities					
Financial lease liabilities	-	-	(112)	(112)	(112)

As at 31 December 2016
Fair value of financial instruments carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Total
Financial assets				
Forward foreign exchange contracts	-	15	-	15
Financial liabilities				
Forward foreign exchange contracts	-	(17)	-	(17)

Fair value of financial instruments not carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Carrying amount	Total fair value
Financial liabilities					
Financial lease liabilities	-	-	(136)	(137)	(136)

PART B – OTHER EXPLANATORY NOTES

B1. REVIEW OF GROUP PERFORMANCE

(a) Performance of the current quarter against the corresponding quarter

	Individual quarter ended 30 June					
	2017	2016	2017	2016	2017	2016
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**3,959**	3,202	**2,539**	2,136	**1,445**	1,092
Profit	**1,023**	533	**615**	312	**398**	219
EBITDA[2]	**1,521**	1,204	**949**	867	**577**	373

The quarter under review marked a significant milestone for the Group with the commencement of commercial operations at the Sabah ammonia and urea (SAMUR) plant in May 2017. With the new plant onstream and running smoothly, the Group's production and sales volumes grew against the corresponding quarter with overall Group plant utilisation of 90% for the quarter.

Excluding SAMUR, plant utilisation stood at 89% compared to 95% in the corresponding quarter due to higher level of maintenance activities.

Overall average product prices improved on higher crude oil price.

Group revenue rose by RM757 million or 24% to RM4.0 billion driven by higher sales volume, higher prices and stronger US Dollar.

EBITDA also increased by RM317 million or 26% to RM1.5 billion on the back of higher volumes, stronger US Dollar and lower operating expenditure. Profit after tax was higher by RM490 million or 92% at RM1.0 billion.

Olefins and Derivatives

Plant utilisation for the segment was 91%, slightly lower than 93% in the corresponding quarter mainly due to higher level of statutory turnaround activities at the Group's MTBE plant. In the corresponding quarter, the statutory turnaround activities were undertaken at the aromatic plant. Nevertheless, sales volume was higher with inventory drawdown.

Average product prices strengthened by 6% in tandem with recovering crude oil prices.

The higher prices and volumes translated into higher revenue for the segment by RM403 million or 19% at RM2.5 billion.

Similarly, EBITDA grew by RM82 million or 10% at RM949 million driven by higher volumes and prices, supported by stronger US Dollar. Profit after tax surged by RM303 million or 97% to RM615 million as the corresponding quarter included asset write-off amounting to RM241 million in relation to the cancellation of elastomers project.

[2] EBITDA refers to earnings before interest, taxation, depreciation and amortisation, share of profit of equity accounted joint ventures and associates and other significant non-cash items.

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

(a) Performance of the current quarter against the corresponding quarter (continued)

Fertilisers and Methanol

The segment recorded plant utilisation of 88% with higher production and sales volumes against the corresponding quarter following commencement of SAMUR commercial operations. Excluding SAMUR, plant utilisation was 86% compared to 96% in the corresponding quarter due to higher level of maintenance activities.

Average product prices rose by 5% on improving methanol price which offset lower prices for urea and ammonia prices due to oversupply situation.

Revenue increased by RM353 million or 32% to RM1.4 billion driven by higher volumes attributable mainly to SAMUR, higher prices and stronger US Dollar.

Correspondingly, both EBITDA and profit after tax grew by RM204 million or 55% to RM577 million and by RM179 million or 82% to RM398 million respectively.

b) Performance of the current period against the corresponding period

						Cumulative quarter ended 30 June
	2017	2016	2017	2016	2017	2016
In RM Mil		Group	Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**8,654**	6,349	**5,761**	4,384	**2,953**	2,027
Profit after tax	**2,404**	1,204	**1,548**	773	**849**	411
EBITDA[3]	**3,461**	2,350	**2,283**	1,675	**1,199**	711

The Group recorded higher production and sales volumes during the period with the commencement of commercial operations at the Group's SAMUR plant. Plant utilisation stood at 94% including SAMUR. Excluding SAMUR, the Group attained comparable performance against the corresponding period with plant utilisation of 94%.

Average product prices trended upwards in tandem with the rising crude oil price.

Driven by higher volumes and prices coupled with stronger US Dollar, revenue rose by RM2.3 billion or 36% to RM8.7 billion.

Group EBITDA increased by RM1.1 billion or 47% to RM3.5 billion whilst profit after tax doubled from RM1.2 billion to RM2.4 billion on higher volumes and improving product spreads.

[3] EBITDA refers to earnings before interest, taxation, depreciation and amortisation, share of profit of equity accounted joint ventures and associates and other significant non-cash items.

PETRONAS

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

(b) Performance of the current period against the corresponding period (continued)

Olefins and Derivatives

The segment achieved higher plant utilisation of 97% against 95% in the corresponding period mainly as a result of lower level of statutory turnaround activities. The Group undertook turnaround activities at its MTBE plant in the current period compared to at its PDH and aromatics plants in the corresponding period. Both production and sales volumes increased with improved plant utilisation.

Average product prices were higher compared to the corresponding period in line with increasing crude oil price.

Driven by higher prices and volumes coupled with strong US Dollar, revenue increased by RM1.4 billion or 29% to RM5.8 billion.

EBITDA rose correspondingly by RM608 million or 36% to RM2.3 billion. Profit after tax increased from RM773 million to RM1.5 billion as the corresponding quarter included asset write-off amounting to RM241 million in relation to the cancellation of elastomers project.

Fertilisers and Methanol

The segment sustained its operational performance, recording plant utilisation of 92% compared to 93% in the corresponding period. Both production and sales volumes grew following the commencement of SAMUR commercial operations. Excluding SAMUR, the segment's plant utilisation was at 91%, slightly lower than corresponding due to higher level of maintenance activities.

Average realised product prices strengthened as a result of higher product prices for urea and methanol following improved demand. However, ammonia price remained weak with oversupply in the market.

Revenue surged by RM926 million or 46% to RM3.0 billion on the back of higher volumes and prices, supported by stronger US Dollar.

Similarly, EBITDA increased by RM488 million to RM1.2 billion and profit after tax rose than doubled to RM849 million.

PART B – OTHER EXPLANATORY NOTES (continued)

B2. VARIATION OF RESULTS AGAINST THE PRECEDING QUARTER

In RM Mil	30 June 2017	31 March 2017
Revenue	3,959	4,695
Profit	1,023	1,381
EBITDA[4]	1,521	1,940

Group plant utilisation was lower at 90% (89% excluding SAMUR) compared to 99% in the preceding quarter following higher level of statutory turnaround and maintenance activities. Nevertheless, production volume remained comparable due to additional volumes from SAMUR whilst sales volume was higher supported by inventory drawdown.

Overall average product prices declined by 17% from the preceding quarter, affected by weaker crude oil price.

Group revenue decreased by RM736 million or 16% to RM4.0 billion as lower product prices and weaker US Dollar offset the impact of higher volumes.

EBITDA was also lower by RM419 million or 22% to RM1.5 billion whilst profit after tax dropped by RM358 million or 26% to RM1.0 billion following narrower product spreads.

B3. COMMENTARY ON PROSPECTS

The results of the Group's operations are expected to be primarily influenced by global economic conditions, utilisation rate of our production facilities and petrochemical products prices which have a high correlation to crude oil prices, particularly for the Olefins and Derivatives segment.

The utilisation of our production facilities is dependent on plant maintenance activities and sufficient availability of feedstock as well as utilities supply. The Group will continue with its operational excellence programme and supplier relationship management to sustain plant utilisation level at above industry benchmark, albeit slightly lower than 2016 due to higher statutory turnarounds planned in the third quarter.

Olefins and Derivatives

The Group anticipates the olefins and derivatives market to firm in the near term, drawing support from tight supply condition from scheduled turnarounds and increased demand from restocking activities.

Fertilisers and Methanol

The Group anticipates an overall bearish undertone for fertilisers as demand slows down amidst a supply glut. Methanol prices are expected to be stable primarily due to healthy downstream demand and cheaper feedstock prices.

[4] EBITDA refers to earnings before interest, taxation, depreciation and amortisation, share of profit of equity accounted joint ventures and associates and other significant non-cash items.

PART B – OTHER EXPLANATORY NOTES (continued)

B4. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable as the Group does not publish any profit forecast.

B5. OPERATING PROFIT

	Individual quarter ended		Cumulative quarter ended	
		30 June		30 June
In RM Mil	2017	2016	2017	2016
Included in operating profit are the following charges:				
Depreciation and amortisation	**403**	331	**752**	658
Loss on foreign exchange:				
- Realised	**5**	17	**1**	84
- Unrealised	**-**	49	**9**	106
Loss on disposal of property, plant and equipment	**6**	4	**6**	4
Property, plant and equipment written-off	**-**	241	**-**	241
and credits:				
Interest income	**48**	63	**96**	135
Other income	**20**	2	**27**	5
Gain on foreign exchange:				
- Realised	**-**	28	**-**	102
- Unrealised	**2**	33	**-**	87
Reversal of provisions for plant decommissioning and onerous contracts	**-**	56	**-**	56

Other disclosure items pursuant to Appendix 9B Note 16 of the Listing Requirements of Bursa Malaysia Securities Berhad are not applicable.

B6. NET FINANCING COSTS/(INCOME)

	Individual quarter ended		Cumulative quarter ended	
		30 June		30 June
In RM Mil	2017	2016	2017	2016
Unwinding of discount factor for other long term liabilities and provisions	**4**	-	**10**	6
Unrealised loss on forward exchange contract	**-**	61	**-**	(325)
Unrealised gain on foreign exchange	**-**	(93)	**-**	287
	4	(32)	**10**	(32)

In the corresponding quarter, unrealised loss on forward exchange contract arose from forward exchange contracts entered in relation to loan due from a subsidiary.

PART B – OTHER EXPLANATORY NOTES (continued)

B7. TAX EXPENSE

In RM Mil	Individual quarter ended 30 June 2017	2016	Cumulative quarter ended 30 June 2017	2016
Current tax expenses				
Current period tax	178	294	398	492
Under/(Over) provision in respect of prior periods	-	1	1	(2)
	178	295	399	490
Deferred tax expenses				
Origination and reversal of temporary differences	6	(45)	44	(14)
(Over)/Under provision in respect of prior periods	(45)	-	(49)	(1)
	(39)	(45)	(5)	(15)
	139	250	394	475

The Group's effective tax rates for the period ended 30 June 2017 and 2016 are 14% and 28% respectively as compared to the corporate income tax rate of 24%. The lower effective tax rate for the period ended 30 June 2017 is mainly due to higher proportion of profits taxed at a lower rate under Global Incentive for Trading (GIFT). The higher effective tax rate in the corresponding period was mainly due to the write-off on assets relating to the cancellation of elastomers project, which was non-deductible for tax purposes as well as effect of deferred tax assets not recognised at certain subsidiaries.

B8. SALES OF UNQUOTED INVESTMENTS/PROPERTIES

There were no material disposals of unquoted investments or properties by the Group for the period under review.

B9. QUOTED SECURITIES

There were no material dealings in quoted securities during the period under review.

B10. STATUS OF CORPORATE PROPOSALS

There was no new corporate proposal during the period under review since the last audited financial statements of 31 December 2016.

B11. BORROWINGS

The details of the Group borrowings are as follows:

In RM Mil	As at 30.6.2017	As at 31.12.2016
Revolving credits - unsecured	-	23

B12. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments as at the date of this report is as disclosed in Note A14.

B13. FAIR VALUE CHANGES OF FINANCIAL LIABILITIES

The Group does not have any financial liabilities that are measured at fair value (other than derivative financial instruments) for the quarter ended 30 June 2017.

PART B – OTHER EXPLANATORY NOTES (continued)

B14. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

This information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirement, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia.

The Group's balance of realised and unrealised retained profits disclosed as follows:

In RM Mil	**As at 30.6.2017**	**As at 31.12.2016**
Total retained profits of the Group		
Realised	**21,600**	20,774
Unrealised	**(514)**	(492)
	21,086	20,282
Total share retained profits from associates and joint ventures		
Realised	**117**	155
Unrealised	**(26)**	(26)
	91	129
Total realised and unrealised	**21,177**	20,411
Less: Consolidation adjustments	**(3,154)**	(3,663)
Total group retained profits as per consolidated account	**18,023**	16,748

B15. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 30 June 2017.

B16. MATERIAL LITIGATION

There is no pending material litigation since the last audited financial statements of PCG and its subsidiaries for the year ended 31 December 2016.

B17. DIVIDENDS

The Directors of the Company have declared an interim single tier dividend of 12 sen per ordinary share, amounting to RM960 million to shareholders in respect of the financial year ending 31 December 2017 (2016: first interim dividend for the year ended 31 December 2016 of 7 sen per share, amounting to RM560 million).

The dividends are payable on 8 September 2017 to depositors registered in the Records of Depositors at the close of business on 25 August 2017.

A Depositor shall qualify for entitlement to the dividends only in respect of:

a) Shares transferred into the Depositor's Securities Account before 4.00 pm on 25 August 2017 in respect of ordinary transfers.

b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the rules of the Bursa Malaysia Securities Berhad.

PART B – OTHER EXPLANATORY NOTES (continued)

B18. BASIC EARNINGS PER SHARE

In RM Mil	Individual quarter ended 30 June 2017	2016	Cumulative quarter ended 30 June 2017	2016
Profit for the period attributable to shareholders of the Company	**964**	462	**2,259**	1,054
Earnings per share attributable to shareholders of the Company:				
In millions of shares				
Number of ordinary shares issued	**8,000**	8,000	**8,000**	8,000
Basic earnings per share (sen)	**12**	6	**28**	13

As at the date of the statement of financial position, the Company does not have any instruments which may have a dilutive impact on the basic earnings per share.

B19. EXCHANGE RATES

	Individual quarter ended			Cumulative quarter ended		
USD/MYR	30.6.2017	31.3.2017	30.6.2016	30.6.2017	31.12.2016	30.6.2016
Average rate	**4.3329**	4.4472	4.0089	**4.3900**	4.1459	4.1057
Closing rate	**4.2950**	4.4240	4.0180	**4.2950**	4.4845	4.0180

By order of the Board

Noor Lily Zuriati Binti Abdullah (LS0009795)
Kang Shew Meng (MAICSA 0778565)
Joint Secretaries

Kuala Lumpur
10 August 2017