PETRONAS CHEMICALS GROUP BERHAD

Quarterly Report

For Second Quarter Ended 30 June 2018

PETRONAS CHEMICALS GROUP BERHAD (459830-K)

QUARTERLY REPORT

FOR SECOND QUARTER ENDED 30 JUNE 2018

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 2018 which should be read in conjunction with the accompanying explanatory notes on pages 6 to 20.

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

In RM Mil	Note	Individual quarter ended 30 June 2018	Individual quarter ended 30 June 2017	Cumulative quarter ended 30 June 2018	Cumulative quarter ended 30 June 2017
Revenue		4,733	3,959	9,684	8,654
Cost of revenue		(2,980)	(2,526)	(6,080)	(5,268)
Gross profit		1,753	1,433	3,604	3,386
Selling and distribution expenses		(200)	(189)	(404)	(373)
Administration expenses		(157)	(137)	(365)	(314)
Other expenses		(1)	(5)	(180)	(17)
Other income		96	64	159	123
Operating profit	B4	1,491	1,166	2,814	2,805
Net financing costs	B5	(4)	(4)	(8)	(10)
Share of profit of equity-accounted joint ventures and associates, net of tax		8	-	25	3
Profit before taxation		1,495	1,162	2,831	2,798
Tax expense	B6	(115)	(139)	(344)	(394)
PROFIT FOR THE PERIOD		1,380	1,023	2,487	2,404
Other comprehensive income/(expenses)					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		190	(385)	96	(537)
Share of other comprehensive income/ (expenses) of equity-accounted joint ventures and associates		33	(35)	(13)	(50)
Total other comprehensive income/ (expenses) for the period		223	(420)	83	(587)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,603	603	2,570	1,817
Profit attributable to:					
Shareholders of the Company		1,372	964	2,437	2,259
Non-controlling interests		8	59	50	145
PROFIT FOR THE PERIOD		1,380	1,023	2,487	2,404
Total comprehensive income attributable to:					
Shareholders of the Company		1,595	544	2,520	1,672
Non-controlling interests		8	59	50	145
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,603	603	2,570	1,817
Basic earnings per share attributable to shareholders of the Company:					
Based on ordinary shares issued (sen)	B14	17	12	30	28

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 30.06.2018	As at 31.12.2017
ASSETS			
Property, plant and equipment		18,245	20,792
Prepaid lease payments		31	42
Investments in joint ventures and associates		1,151	1,192
Intangible assets		-	1
Long term receivables		33	113
Deferred tax assets		281	300
TOTAL NON-CURRENT ASSETS		19,741	22,440
Trade and other inventories		1,643	1,723
Trade and other receivables	B8	2,516	2,370
Tax recoverable		33	55
Cash and cash equivalents		11,406	6,674
TOTAL CURRENT ASSETS		15,598	10,822
TOTAL ASSETS		35,339	33,262
EQUITY			
Share capital		8,871	8,871
Reserves		20,066	18,994
Total equity attributable to shareholders of the Company		28,937	27,865
Non-controlling interests		667	1,003
TOTAL EQUITY		29,604	28,868
LIABILITIES			
Deferred tax liabilities		848	838
Other long term liabilities and provisions		191	212
TOTAL NON-CURRENT LIABILITIES		1,039	1,050
Borrowings	B9	2,023	-
Trade and other payables		2,498	3,217
Current tax payables		175	127
TOTAL CURRENT LIABILITIES		4,696	3,344
TOTAL LIABILITIES		5,735	4,394
TOTAL EQUITY AND LIABILITIES		35,339	33,262
Net assets per share attributable to the shareholders of the Company (RM)		3.62	3.48

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.

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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 2018					
At 1 January 2018	8,871	-	(244)	(204)	461
Foreign currency translation differences	-	-	96	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(13)
Total other comprehensive income/ (expenses) for the period	-	-	96	-	(13)
Profit for the period	-	-	-	-	-
Total comprehensive income/(expenses) for the period	-	-	96	-	(13)
Redemption of Redeemable Preference Shares in subsidiaries	-	-	-	-	87
Additional equity interest in subsidiaries	-	-	-	-	-
Dividends to shareholders of the Company	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	87
Balance at 30 June 2018	8,871	-	(148)	(204)	535
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)/income 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	-	-	-	-	-
Transfer 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

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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 Section 618 of the Act, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has twenty-four 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 the 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 2018				
At 1 January 2018	18,981	27,865	1,003	28,868
Foreign currency translation differences	-	96	-	96
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(13)	-	(13)
Total other comprehensive income/ (expenses) for the period	-	83	-	83
Profit for the period	2,437	2,437	50	2,487
Total comprehensive income/(expenses) for the period	2,437	2,520	50	2,570
Redemption of Redeemable Preference Shares in subsidiaries	(87)	-	-	-
Additional equity interest in subsidiaries	(248)	(248)	(386)	(634)
Dividends to shareholders of the Company	(1,200)	(1,200)	-	(1,200)
Total transactions with shareholders	(1,535)	(1,448)	(386)	(1,834)
Balance at 30 June 2018	19,883	28,937	667	29,604
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)/income 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)
Transfer 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

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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

	Cumulative quarter ended 30 June	
In RM Mil	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	2,831	2,798
Adjustments for:		
- Depreciation and amortisation	811	752
- Finance costs	8	10
- Interest income	(127)	(96)
- Loss on partial divestment of a subsidiary	153	-
- Share of profit after tax and non-controlling interests of equity-accounted joint ventures and associates	(25)	(3)
- Other non-cash items	(11)	19
Operating profit before changes in working capital	3,640	3,480
Change in trade and other inventories	88	(199)
Change in trade and other receivables	(133)	218
Change in trade and other payables	(162)	(400)
Cash generated from operations	3,433	3,099
Interest income from fund and other investments	121	92
Taxation paid	(245)	(264)
Net cash generated from operating activities	3,309	2,927
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from equity-accounted joint ventures and associates	53	44
Increase in investment in an associate	-	(24)
Purchase of property, plant and equipment	(1,560)	(1,500)
Proceeds from partial divestment of equity and shareholder loans in a subsidiary, net of cash divested	969	-
Net cash used in investing activities	(538)	(1,480)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to:		
- PETRONAS	(772)	(618)
- others (third parties)	(428)	(342)
- non-controlling interests	-	(187)
Repayment of:		
- finance lease liabilities	(28)	(28)
- revolving credit	-	(23)
Drawdown of term loan	3,886	-
Payment for additional equity interest in subsidiaries	(634)	-
Net cash generated from/(used in) financing activities	2,024	(1,198)
Net cash flows from operating, investing and financing activities	4,795	249
Effect of foreign currency translation differences	(60)	(19)
Net increase in cash and cash equivalents	4,735	230
Net foreign exchange differences on cash held	(3)	(53)
Cash and cash equivalents at beginning of the period	6,674	7,403
Cash and cash equivalents at end of the period	11,406	7,580

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 audited financial statements of the Group for the year ended 31 December 2017. The explanatory notes attached to the condensed 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.

Within the context of these unaudited condensed consolidated financial statements, the Group comprises the Company, its subsidiaries and a joint operation, as well as the Group's interest in joint ventures and associates as at and for the quarter ended 30 June 2018.

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 2017.

As of 1 January 2018, the Group has adopted the following new MFRSs, amendments and clarification to MFRSs and IC interpretation (collectively referred to as "pronouncements") which are effective for annual years beginning on or after 1 January 2018.

MFRS 9	Financial Instruments (2014)
MFRS 15	Revenue from Contracts with Customers
Clarification to MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 128	Investment in Associates and Joint Ventures (Annual Improvements 2014 – 2016 Cycle)
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration

The initial application of the above pronouncements did not have any material impact to the accounting policies of the Group except as mentioned below.

(i) MFRS 9 Financial Instruments

MFRS 9 replaces MFRS 139 Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Three principal classifications categories for financial assets are measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing MFRS 139 categories of held to maturity, loans and receivables and available for sale.

There was no material impact on the Group's financial assets upon initial application of the new classification and measurement requirements.

MFRS 9 also replaces the incurred loss model in respect of impairment assessment in MFRS 139 with a forward-looking expected credit loss (ECL) model. Under MFRS 9, loss allowances are measured on either a 12-month ECL or a Lifetime ECL.

There was no material impact on the Group's consolidated financial statements upon application of the forward-looking ECL model.

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

A2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) MFRS 15 Revenue from Contracts with Customers

MFRS 15 replaces MFRS 111 Construction Contracts, MFRS 118 Revenue, IC Interpretation 13 Customer Loyalty Programmes, IC Interpretation 15 Agreements for Construction of Real Estate, IC Interpretation 18 Transfers of Assets from Customers and IC Interpretation 131 Revenue – Barter Transactions Involving Advertising Services. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

There was no material impact on the Group's consolidated financial statements upon application of MFRS 15.

A3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The audited financial statements of PCG and its subsidiaries for the year ended 31 December 2017 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 period 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 2017 that may have a material effect in the results of the period under review.

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, other than as disclosed in note B9.

A8. DIVIDEND PAID

During the period under review, the Company paid a second interim single tier dividend of 15 sen per ordinary share, amounting to RM1,200 million in respect of the financial year ended 31 December 2017 to shareholders on 21 March 2018.

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

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					
	2018	2017	2018	2017	2018	2017
In RM Mil	Third Parties		Inter-segment		Gross Total	
Olefins and Derivatives	5,901	5,754	8	7	5,909	5,761
Fertilisers and Methanol	3,755	2,875	78	77	3,833	2,952
Others	28	25	24	21	52	46
Total	9,684	8,654	110	105	9,794	8,759

9.2 Segment Profit for the Period[1]

	Cumulative quarter ended 30 June	
In RM Mil	2018	2017
Olefins and Derivatives	1,393	1,548
Fertilisers and Methanol	1,241	849
Others	(147)	7
Total	2,487	2,404

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 2018, all property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

A11. SIGNIFICANT EVENTS

i) On 28 March 2018, the Company completed the divestment of its 50% equity interest and shareholder loans held by the Company in one of its subsidiaries, Pengerang Petrochemical Company Sdn. Bhd. (formerly known as PRPC Polymers Sdn. Bhd.) (PPCSB) in accordance with the Share Purchase Agreement (SPA) entered between the Company and Aramco Overseas Holdings Coöperatief U.A (AOHC) dated 29 September 2017. Pursuant to this, PPCSB ceased to be a subsidiary of the Company and has since been accounted for as a joint operation in accordance with MFRS 11 Joint Arrangements.

Further details of the partial divestment is as stated in a separate Bursa Announcement issued on 28 March 2018.

ii) On 29 March 2018, the Company completed the acquisition of a non-controlling interest held in two of its subsidiaries, PC Olefins Sdn. Bhd. (PC Olefins) and PC LDPE Sdn. Bhd. (PC LDPE). As a result of the acquisition, PC Olefins and PC LDPE have become wholly-owned subsidiaries of the Group.

[1] Included within profit for the period for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM396 million (2017: RM418 million), RM404 million (2017: RM323 million) and RM11 million (2017: RM11 million) respectively.

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

A12. CONTINGENCIES

There were no material contingent liabilities or contingent assets since the last consolidated statement of financial position as at 31 December 2017.

A13. CHANGES IN COMPOSITION OF THE GROUP

There are no other material changes in the composition of the Group, other than as disclosed in note A11.

A14. 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 30.06.2018	As at 31.12.2017
Property, plant and equipment:		
Approved and contracted for	1,764	3,695
Approved but not contracted for	1,372	3,257
	3,136	6,952

Included in the above is an amount of RM2.5 billion (2017: RM6.2 billion) relating to the petrochemicals projects within the Pengerang Integrated Complex (PIC) in Pengerang, Johor.

A15. FAIR VALUE INFORMATION

The carrying amounts of cash and cash equivalents, short term receivables and payables and borrowings 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.

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.

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

A15. FAIR VALUE INFORMATION (continued)

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 2018

Fair value of financial instruments carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Total	Nominal value
Financial assets					
Forward foreign exchange contracts					
- within 1 year	-	20	-	20	960
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(16)	-	(16)	(1,071)

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					
Finance lease liabilities	-	-	(64)	(64)	(64)

As at 31 December 2017

Fair value of financial instruments carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Total	Nominal value
Financial assets					
Forward foreign exchange contracts					
- within 1 year	-	19	-	19	2,148
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(15)	-	(15)	(1,779)

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					
Finance lease liabilities	-	-	(88)	(88)	(88)

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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					
	2018	2017	2018	2017	2018	2017
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	4,733	3,959	2,754	2,539	2,002	1,445
Profit after tax	1,380	1,023	674	615	678	398
EBITDA[2]	1,811	1,521	945	949	878	577

PCG Group recorded plant utilisation of 95% which had improved from the corresponding quarter of 90%, primarily due to lower level of maintenance activities at its ammonia and urea plants, as well as lower statutory turnaround days. Correspondingly, production and sales volumes increased.

Overall average product prices were higher compared to the corresponding quarter, contributed by higher crude oil price.

Revenue increased by RM774 million or 20% to RM4.7 billion mainly driven by higher product prices and sales volumes, partially offset by the strengthening of Ringgit Malaysia against US Dollar.

EBITDA was higher by RM290 million or 19% to RM1.8 billion in line with the increase in revenue. Profit after tax was also higher by RM357 million or 35% to RM1.4 billion in tandem with higher EBITDA, supported by higher interest income and lower tax expenses.

Olefins and Derivatives

Plant utilisation for the segment was 88% compared to 91% in the corresponding quarter mainly due to higher maintenance activities at its cracker and related downstream facilities partially offset by the impact of lower statutory turnaround days as compared to the corresponding quarter. Production volumes decreased whilst sales volumes remained comparable, supported by product drawdown from inventory.

Average product prices for the segment improved following higher crude oil price.

The segment achieved higher revenue by RM215 million or 8% at RM2.8 billion on the back of higher product prices, partially offset by the strengthening of Ringgit Malaysia against US Dollar.

Despite higher revenue, EBITDA was comparable with the corresponding quarter at RM945 million due to lower sales volumes of ethane-based products. Nonetheless, profit after tax increased by RM59 million or 10% to RM674 million contributed by lower tax expenses.

[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 achieved plant utilisation of 99% compared to 88% in the corresponding quarter supported by lower level of maintenance activities at its ammonia and urea plants. The improved plant utilisation contributed to higher production and sales volumes in the current quarter.

Average product prices strengthened due to higher crude oil prices. However, ammonia prices weakened in line with improved supply situation coupled with softer downstream demand.

The segment achieved higher revenue by RM557 million or 39% at RM2.0 billion in the current quarter attributable to higher product prices and sales volumes, partially offset by the strengthening of Ringgit Malaysia against US Dollar.

EBITDA increased by RM301 million or 52% to RM878 million following higher revenue. Profit after tax was also higher by RM280 million or 70% at RM678 million.

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

	Cumulative quarter ended 30 June					
	2018	2017	2018	2017	2018	2017
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	9,684	8,654	5,909	5,761	3,833	2,953
Profit after tax	2,487	2,404	1,393	1,548	1,241	849
EBITDA[3]	3,651	3,461	2,051	2,283	1,657	1,199

The Group recorded higher plant utilisation of 98% in comparison to 94% in the corresponding period mainly driven by better plant performance. Production and sales volumes increased on the back of improved plant utilisation.

Overall average product prices were higher than the corresponding period contributed by strengthening of crude oil price.

Revenue for the Group increased by RM1.0 billion or 12% to RM9.7 billion largely due to higher sales volumes and product prices, partially offset by the strengthening of Ringgit Malaysia against US Dollar.

EBITDA was higher by RM190 million or 5% at RM3.7 billion in line with higher revenue. Profit after tax also increased by RM83 million or 3% to RM2.5 billion following higher EBITDA, partially negated by the impact of foreign exchange loss on its shareholder loans pursuant to the divestment of 50% equity interest in a subsidiary.

[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.

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 recorded plant utilisation of 95% compared to 97% in the corresponding period, primarily due to higher maintenance activities at its cracker and related downstream facilities partially offset by the impact of lower statutory turnaround days as compared to the corresponding period. Nonetheless, sales volumes increased, supported by product drawdown from inventory.

Average product prices strengthened in the current period on the back of higher crude oil prices.

The segment achieved higher revenue by RM148 million or 3% at RM5.9 billion mainly due to higher product prices, partially offset by the strengthening of Ringgit Malaysia against US Dollar.

Despite higher revenue, EBITDA decreased by RM232 million or 10% to RM2.1 billion largely due to a once-off adjustment made during the current period relating to under accrual of manpower-related expenses in respect of the previous period. Profit after tax also decreased by RM155 million or 10% to RM1.4 billion following lower EBITDA, partly negated by lower tax expenses.

Fertilisers and Methanol

The segment achieved higher plant utilisation of 99% against 92% in the corresponding period driven by lower level of maintenance activities at its ammonia and urea plants. Both production and sales volumes increased with improved plant utilisation.

Average product prices were firmer across all products driven by higher crude oil prices and limited global supply.

Revenue increased by RM880 million or 30% to RM3.8 billion with higher product prices and sales volumes, partially negated by the strengthening of Ringgit Malaysia against US Dollar.

Following higher revenue, EBITDA was higher by RM458 million or 38% at RM1.7 billion. Profit after tax was also higher by RM392 million or 46% at RM1.2 billion in tandem with higher EBITDA, partially offset by additional depreciation from the commencement of commercial operation at PCFSSB.

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

(c) Variation of results against the preceding quarter

In RM Mil	Individual quarter ended 30 June 2018	31 March 2018
Revenue	4,733	4,951
Profit after tax	1,380	1,107
EBITDA[4]	1,811	1,840

Plant utilisation for the Group decreased from 100% to 95% in the current quarter primarily due to statutory turnaround and higher maintenance activities, resulting in lower production volume. Nonetheless, sales volume was comparable, supported by product drawdown from inventory.

Overall average product prices were lower despite stronger crude oil price due to excess supply situation and weaker demand for ammonia, urea and ethylene.

Revenue decreased by RM218 million or 4% to RM4.7 billion mainly as a result of lower product prices and sales volumes.

Despite lower revenue, EBITDA was comparable with the preceding quarter at RM1.8 billion mainly due to a once-off adjustment made in the preceding quarter relating to under accrual of manpower-related expenses in respect of the previous period. Profit after tax for the Group was higher by RM273 million or 25% to RM1.4 billion mainly due to foreign exchange loss on its shareholder loans pursuant to the divestment of 50% equity interest in a subsidiary in the preceding quarter, coupled with higher interest income in the current quarter.

(d) Highlight on consolidated statement of financial position

In RM Mil	As at 30.06.2018	As at 31.12.2017
Total assets	35,339	33,262
Total equity	29,604	28,868
ROE (%)	15.2	14.5

The Group's total assets increased by RM2.0 billion or 6% to RM35.3 billion as at 30 June 2018 as compared to RM33.3 billion as at 31 December 2017. This was primarily due to the increase in cash and cash equivalent; contributed by term loan drawdown, profit generated during the period as well as divestment of 50% equity interest and shareholder loans in a subsidiary, partially offset by capital investment in the petrochemicals projects within PIC. However, the increase in total assets was partially negated by reduction in property, plant and equipment upon the abovementioned divestment, dividend payment to shareholders in the current period and payment for the acquisition of a non-controlling interest in certain subsidiaries.

Total equity was higher by RM736 million or 3% at RM29.6 billion contributed by profit generated during the period, partially negated by the dividend payment and acquisition of shares held by a non-controlling interest in certain subsidiaries.

[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)

B1. REVIEW OF GROUP PERFORMANCE (continued)

(e) Highlight on consolidated statement of cash flows

	Cumulative quarter ended 30 June	
In RM Mil	2018	2017
Net cash generated from operating activities	3,309	2,927
Net cash used in investing activities	(538)	(1,480)
Net cash generated from/(used in) financing activities	2,024	(1,198)

Net cash generated from operating activities increased by RM382 million or 13% to RM3.3 billion as a result of profit generated during the period.

Net cash used in investing activities was lower by RM942 million or 64% at RM538 million largely contributed by proceeds from divestment of 50% equity interest in a subsidiary, partially negated by higher capital investment in petrochemicals projects within PIC.

The Group generated net cash from financing activities of RM2.0 billion as compared to net cash used in the corresponding period of RM1.2 billion due to term loan drawdown by a subsidiary, partially offset by the acquisition of shares held by a non-controlling interest in certain subsidiaries.

B2. COMMENTARY ON PROSPECTS

The results of the Group's operations are expected to be primarily influenced by global economic conditions, foreign exchange rate movements, 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.

Olefins and Derivatives

The Group anticipates that the Olefins and Derivatives segment to be stable in near term, drawing support from healthy downstream demand and firm feedstock prices. However, supply is expected to meet demand as major producers have started up after their scheduled turnarounds.

Fertilisers and Methanol

The Group expects the Fertiliser and Methanol segment to be firm in view of tight supply due to turnaround in the Middle East region and US sanction on Iran. Methanol prices are forecasted to be firm primarily owing to short supply due to upcoming planned turnarounds in China and South East Asia, supported by healthy demand in line with resumption of methanol-to-olefins plants from turnarounds.

B3. PROFIT FORECAST OR PROFIT GUARANTEE

The Group does not publish any profit forecast.

PART B – OTHER EXPLANATORY NOTES (continued)

B4. OPERATING PROFIT

In RM Mil	Individual quarter ended 30 June 2018	Individual quarter ended 30 June 2017	Cumulative quarter ended 30 June 2018	Cumulative quarter ended 30 June 2017
Included in operating profit are the following charges:				
Depreciation and amortisation	400	403	811	752
Net loss on foreign exchange	-	3	-	1
Loss on disposal of property, plant and equipment	-	6	-	6
Loss on partial divestment of a subsidiary	-	-	153	-
Inventories written down to net realisable value	3	-	3	6
and credits:				
Net gain on foreign exchange	12	-	-	-
Interest income	81	48	127	96

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

Foreign exchange exposure / hedging policy

The Group is exposed to varying levels of foreign exchange risk when they enter into transactions that are not denominated in the respective companies' functional currencies and when foreign currency monetary assets and liabilities are retranslated at the reporting date. The main underlying economic currencies of the Group's cash flows are Ringgit Malaysia and US Dollar.

The Group's foreign exchange management policies aim to minimise transactional exposure arising from currency movements. The Group mainly relies on the natural hedge arising from most of its revenue and expenses being denominated in US Dollar. In addition, the Group, where applicable, hedge using derivative instruments in respect of current and forecasted transactions.

B5. NET FINANCING COSTS

In RM Mil	Individual quarter ended 30 June 2018	Individual quarter ended 30 June 2017	Cumulative quarter ended 30 June 2018	Cumulative quarter ended 30 June 2017
Unwinding of discount factor for other long term liabilities and provisions	3	4	7	10
Financial guarantee fee on term loan	1	-	1	-
	4	4	8	10

PART B – OTHER EXPLANATORY NOTES (continued)

B6. TAX EXPENSE

In RM Mil	Individual quarter ended 30 June 2018	2017	Cumulative quarter ended 30 June 2018	2017
Current tax expenses				
Current period tax	105	178	312	398
Under provision in respect of prior periods	-	-	2	1
	105	178	314	399
Deferred tax expenses				
Origination and reversal of temporary differences	1	6	21	44
Over provision in respect of prior periods	9	(45)	9	(49)
	10	(39)	30	(5)
	115	139	344	394

The Group's effective tax rates for the individual and cumulative quarters ended 30 June 2018 are 8% and 12% respectively, which is reflective of the various tax legislations within which the Group operates, including among others Malaysia Income Tax Act 1967 and Global Incentive for Trading (GIFT) under Labuan Financial Services and Securities Act 2010.

B7. STATUS OF CORPORATE PROPOSALS

There was no new corporate proposal during the period under review since the last audited financial statements of 31 December 2017.

B8. TRADE AND OTHER RECEIVABLES

(a) Details of Group trade and other receivables

In RM Mil	As at 30.06.2018	As at 31.12.2017
Trade receivables:		
- Third party	1,538	1,539
- Joint ventures and associates	274	261
- Related companies	99	99
Other receivables	605	471
	2,516	2,370

Average credit term for trade receivables granted to related parties and non-related parties is 45 days.

(b) Ageing analysis of trade receivables

In RM Mil	As at 30.06.2018	As at 31.12.2017
Current	1,910	1,884
Past due 1 to 30 days	1	15
	1,911	1,899

With respect to the Group's trade receivables, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

PART B – OTHER EXPLANATORY NOTES (continued)

B9. BORROWINGS

(a) Details of Group borrowings

	In USD Mil		In RM Mil	
	As at 30.06.2018	As at 31.12.2017	As at 30.06.2018	As at 31.12.2017
Current				
Term loan - unsecured	500	-	2,023	-

The term loan relates to the procurement of a bridge loan by the Group via its subsidiary, PPCSB, on 19 March 2018 amounting to USD1.0 billion from various local and international banks. The said proceeds will be utilised to fund part of the project costs for its petrochemicals projects within PIC in Pengerang, Johor including the reimbursement of project costs already incurred by the Company.

The bridge loan bears floating interest of LIBOR + 0.4% per annum and is due for repayment in March 2019.

Further details of the bridge loan is as stated in a separate Bursa announcement issued on 19 March 2018.

(b) Reconciliation of liabilities arising from financing activities

		Cash flows	Non-cash changes		
	As at 01.01.2018	Drawdown	Partial divestment of a subsidiary	Foreign exchange movement	As at 30.06.2018
In RM Mil					
Term loan - unsecured	-	3,886	(1,931)	68	2,023

On 28 March 2018, the Company completed divestment of its 50% equity interests and shareholder loans in PPCSB as disclosed in note A11. Accordingly, the Group has derecognised 50% of the bridge loan.

B10. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments as at the date of this report is as disclosed in note A15.

B11. 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 2018.

B12. 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 2017.

PART B – OTHER EXPLANATORY NOTES (continued)

B13. DIVIDENDS

The Directors of the Company have declared an interim single tier dividend of 14 sen per ordinary share, amounting to RM1,120 million to shareholders in respect of the financial year ending 31 December 2018 (2017: first interim dividend for the year ended 31 December 2017 of 12 sen per share, amounting to RM960 million).

The dividends are payable on 20 September 2018 to depositors registered in the Records of Depositors at the close of business on 3 September 2018.

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 3 September 2018 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.

B14. BASIC EARNINGS PER SHARE

Basic earnings per share is derived based on the profit attributable to shareholders of the Company and number of ordinary shares of the Company.

	Individual quarter ended 30 June		Cumulative quarter ended 30 June	
	2018	2017	2018	2017
In RM Mil				
Profit for the period attributable to shareholders of the Company	1,372	964	2,437	2,259
In millions of shares				
Number of ordinary shares issued	8,000	8,000	8,000	8,000
In sen				
Basic earnings per share	17	12	30	28

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.

PART B – OTHER EXPLANATORY NOTES (continued)

B15. EXCHANGE RATES

	Individual quarter ended			Cumulative quarter ended		
USD/MYR	30.06.2018	31.03.2018	30.06.2017	30.06.2018	31.12.2017	30.06.2017
Average rate	3.9487	3.9248	4.3329	3.9367	4.3002	4.3900
Closing rate	4.0455	3.8620	4.2950	4.0455	4.0595	4.2950

By order of the Board

Hasnizaini Mohd Zain (LS 0009780)
Kang Shew Meng (MAICSA 0778565)
Joint Secretaries

Kuala Lumpur
15 August 2018