PETRONAS CHEMICALS GROUP BERHAD

Quarterly Report

For Third Quarter Ended 30 September 2018

PETRONAS CHEMICALS GROUP BERHAD (459830-K)

QUARTERLY REPORT

FOR THIRD QUARTER ENDED 30 SEPTEMBER 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 September 2018 which should be read in conjunction with the accompanying explanatory notes on pages 6 to 19.

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

In RM Mil	Note	Individual quarter ended 30 September 2018	Individual quarter ended 30 September 2017	Cumulative quarter ended 30 September 2018	Cumulative quarter ended 30 September 2017
Revenue		4,830	4,013	14,514	12,667
Cost of revenue		(3,267)	(2,670)	(9,347)	(7,938)
Gross profit		1,563	1,343	5,167	4,729
Selling and distribution expenses		(194)	(190)	(598)	(563)
Administration expenses		(148)	(138)	(513)	(452)
Other expenses		(1)	(5)	(181)	(22)
Other income		86	55	245	178
Operating profit	B4	1,306	1,065	4,120	3,870
Net financing costs	B5	(5)	(5)	(13)	(15)
Share of profit of equity-accounted joint ventures and associates, net of tax		41	56	66	59
Profit before taxation		1,342	1,116	4,173	3,914
Tax expense	B6	(70)	(155)	(414)	(549)
PROFIT FOR THE PERIOD		1,272	961	3,759	3,365
Other comprehensive income/(expenses)					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		134	(175)	230	(712)
Share of other comprehensive income/ (expenses) of equity-accounted joint ventures and associates		37	(19)	24	(69)
Total other comprehensive income/ (expenses) for the period		171	(194)	254	(781)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,443	767	4,013	2,584
Profit attributable to:					
Shareholders of the Company		1,257	913	3,694	3,172
Non-controlling interests		15	48	65	193
PROFIT FOR THE PERIOD		1,272	961	3,759	3,365
Total comprehensive income attributable to:					
Shareholders of the Company		1,429	719	3,949	2,391
Non-controlling interests		14	48	64	193
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,443	767	4,013	2,584
Basic earnings per share attributable to shareholders of the Company:					
Based on ordinary shares issued (sen)	B13	16	11	46	40

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 30.09.2018	As at 31.12.2017
ASSETS			
Property, plant and equipment		18,604	20,792
Prepaid lease payments		31	42
Investments in joint ventures and associates		1,229	1,192
Intangible assets		-	1
Long term receivables		30	113
Deferred tax assets		277	300
TOTAL NON-CURRENT ASSETS		20,171	22,440
Trade and other inventories		1,671	1,723
Trade and other receivables	B8	2,572	2,370
Tax recoverable		35	55
Cash and cash equivalents		11,436	6,674
TOTAL CURRENT ASSETS		15,714	10,822
TOTAL ASSETS		35,885	33,262
EQUITY			
Share capital		8,871	8,871
Reserves		20,375	18,994
Total equity attributable to shareholders of the Company		29,246	27,865
Non-controlling interests		681	1,003
TOTAL EQUITY		29,927	28,868
LIABILITIES			
Deferred tax liabilities		851	838
Other long term liabilities and provisions		181	212
TOTAL NON-CURRENT LIABILITIES		1,032	1,050
Borrowings	B9	2,072	-
Trade and other payables		2,672	3,217
Current tax payables		182	127
TOTAL CURRENT LIABILITIES		4,926	3,344
TOTAL LIABILITIES		5,958	4,394
TOTAL EQUITY AND LIABILITIES		35,885	33,262
Net assets per share attributable to the shareholders of the Company (RM)		3.66	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.

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 September 2018					
At 1 January 2018	8,871	-	(244)	(204)	461
Foreign currency translation differences	-	-	231	-	-
Share of other comprehensive income of equity-accounted joint ventures and associates	-	-	-	-	24
Total other comprehensive income/ (expenses) for the period	-	-	231	-	24
Profit for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	231	-	24
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 September 2018	8,871	-	(13)	(204)	572
Cumulative quarter ended 30 September 2017					
At 1 January 2017	800	8,071	1,077	(204)	550
Foreign currency translation differences	-	-	(712)	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(69)
Total other comprehensive expenses for the period	-	-	(712)	-	(69)
Profit for the period	-	-	-	-	-
Total comprehensive (expenses)/income for the period	-	-	(712)	-	(69)
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 September 2017	8,871	-	365	(204)	505

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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)

In RM Mil	Attributable to shareholders of the Company — Distributable: Retained Profits	Total	Non-controlling Interests	Total Equity
Cumulative quarter ended 30 September 2018				
At 1 January 2018	18,981	27,865	1,003	28,868
Foreign currency translation differences	-	231	(1)	230
Share of other comprehensive income of equity-accounted joint ventures and associates	-	24	-	24
Total other comprehensive income/(expenses) for the period	-	255	(1)	254
Profit for the period	3,694	3,694	65	3,759
Total comprehensive income for the period	3,694	3,949	64	4,013
Redemption of Redeemable Preference Shares in subsidiaries	(87)	-	-	-
Additional equity interest in subsidiaries	(248)	(248)	(386)	(634)
Dividends to shareholders of the Company	(2,320)	(2,320)	-	(2,320)
Total transactions with shareholders	(2,655)	(2,568)	(386)	(2,954)
Balance at 30 September 2018	20,020	29,246	681	29,927
Cumulative quarter ended 30 September 2017				
At 1 January 2017	16,748	27,042	1,271	28,313
Foreign currency translation differences	-	(712)	-	(712)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(69)	-	(69)
Total other comprehensive expenses for the period	-	(781)	-	(781)
Profit for the period	3,172	3,172	193	3,365
Total comprehensive (expenses)/income for the period	3,172	2,391	193	2,584
Redemption of Redeemable Preference Shares in a subsidiary	(24)	-	-	-
Dividends to shareholders of the Company	(1,920)	(1,920)	-	(1,920)
Dividends to non-controlling interests	-	-	(326)	(326)
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	(1,944)	(1,920)	(326)	(2,246)
Balance at 30 September 2017	17,976	27,513	1,138	28,651

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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.

PETRONAS

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Cumulative quarter ended 30 September	
In RM Mil	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	4,173	3,914
Adjustments for:		
- Depreciation and amortisation	1,226	1,166
- Finance costs	13	15
- Interest income	(219)	(143)
- Loss on partial divestment of a subsidiary	153	-
- Share of profit after tax and non-controlling interests of equity-accounted joint ventures and associates	(66)	(59)
- Other non-cash items Note a	(27)	(279)
Operating profit before changes in working capital	5,253	4,614
Change in trade and other inventories	58	(239)
Change in trade and other receivables	(181)	563
Change in trade and other payables Note a	85	(466)
Cash generated from operations	5,215	4,472
Interest income from fund and other investments	213	130
Taxation paid	(303)	(370)
Net cash generated from operating activities	5,125	4,232
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from equity-accounted joint ventures and associates	74	45
Increase in investment in an associate	(21)	(24)
Purchase of property, plant and equipment	(2,253)	(2,730)
Proceeds from sales of property, plant and equipment	1	1
Proceeds from partial divestment of equity and shareholder loans in a subsidiary, net of cash divested	969	-
Net cash used in investing activities	(1,230)	(2,708)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to:		
- PETRONAS	(1,493)	(1,236)
- others (third parties)	(827)	(684)
- non-controlling interests	-	(368)
Repayment of:		
- finance lease liabilities	(41)	(41)
- 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	891	(2,352)
Net cash flows from/(used in) operating, investing and financing activities	4,786	(828)
Effect of foreign currency translation differences	(36)	16
Net increase/(decrease) in cash and cash equivalents	4,750	(812)
Net foreign exchange differences on cash held	12	(73)
Cash and cash equivalents at beginning of the period	6,674	7,403
Cash and cash equivalents at end of the period	11,436	6,518

Note a: Included in the comparative figure for change in trade and other payables are non-cash items amounting to RM300 million which have now been reclassified into other non-cash items accordingly.

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 September 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:

(i) 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.

(ii) A first interim single tier dividend of 14 sen per ordinary share, amounting to RM1,120 million in respect of the financial year ending 31 December 2018 to shareholders on 20 September 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 September					
	2018	2017	2018	2017	2018	2017
In RM Mil	Third Parties		Inter-segment		Gross Total	
Olefins and Derivatives	9,059	8,384	13	9	9,072	8,393
Fertilisers and Methanol	5,413	4,251	106	104	5,519	4,355
Others	42	32	36	31	78	63
Total	14,514	12,667	155	144	14,669	12,811

9.2 Segment Profit for the Period[1]

	Cumulative quarter ended 30 September	
In RM Mil	2018	2017
Olefins and Derivatives	2,136	2,134
Fertilisers and Methanol	1,737	1,218
Others	(114)	13
Total	3,759	3,365

A10. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

There were no revaluations of property, plant and equipment for the period under review. As at 30 September 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, PETRONAS Chemicals Olefins Sdn. Bhd. (PC Olefins) and PETRONAS Chemicals 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 RM605 million (2017: RM615 million), RM605 million (2017: RM535 million) and RM16 million (2017: RM16 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 were 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 30.09.2018	As at 31.12.2017
Property, plant and equipment:		
Approved and contracted for	1,087	3,695
Approved but not contracted for	1,019	3,257
	2,106	6,952

Included in the above is an amount of RM1.7 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 September 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	-	6	-	6	487
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(4)	-	(4)	(497)

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	-	-	(53)	(53)	(53)

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)

PART B – OTHER EXPLANATORY NOTES

B1. REVIEW OF GROUP PERFORMANCE

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

In RM Mil	2018	2017	2018	2017	2018	2017
	Individual quarter ended 30 September					
	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	4,830	4,013	3,163	2,633	1,686	1,403
Profit after tax	1,272	961	743	586	496	369
EBITDA[2]	1,628	1,431	965	852	688	600

Plant utilisation for PCG Group was lower at 79% compared to the corresponding quarter of 86%, largely due to higher level of statutory turnaround activities at its urea and methanol plants. Consequently, production and sales volumes were lower.

Overall average product prices for the Group strengthened in tandem with higher crude oil price.

The Group's revenue increased by RM817 million or 20% to RM4.8 billion on the back of higher product prices, partially offset by lower sales volumes and the strengthening of Ringgit Malaysia against US Dollar.

EBITDA was higher by RM197 million or 14% at RM1.6 billion following higher revenue. Profit after tax was also higher by RM311 million or 32% to RM1.3 billion in line with higher EBITDA, supported by lower tax expenses and higher interest income.

Olefins and Derivatives

The segment recorded higher plant utilisation of 96% compared to 82% in the corresponding quarter, primarily contributed by lower statutory turnaround at its cracker and related downstream facilities. Production and sales volumes increased in line with the higher plant utilisation.

Average product prices for the segment improved attributable to the strengthening of crude oil price.

Revenue increased by RM530 million or 20% to RM3.2 billion mainly driven by higher product prices and volumes, partially negated by the strengthening of Ringgit Malaysia against US Dollar.

Correspondingly, the segment achieved higher EBITDA by RM113 million or 13% at RM965 million. Profit after tax also increased by RM157 million or 27% to RM743 million.

[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

Plant utilisation for the segment was lower at 69% compared to the corresponding quarter mainly due to higher level of statutory turnaround activities undertaken at its urea and methanol plants. Correspondingly, the segment recorded lower production and sales volumes.

Average product prices improved across all products as crude oil price increased.

The segment recorded higher revenue by RM283 million or 20% at RM1.7 billion mainly attributable to higher product prices, despite lower sales volumes and the strengthening of Ringgit Malaysia against US Dollar.

Following higher revenue, EBITDA increased by RM88 million or 15% to RM688 million. Profit after tax also increased by RM127 million or 34% to RM496 million.

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

	Cumulative quarter ended 30 September					
	2018	2017	2018	2017	2018	2017
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	14,514	12,667	9,072	8,393	5,519	4,355
Profit after tax	3,759	3,365	2,136	2,134	1,737	1,218
EBITDA[3]	5,279	4,891	3,016	3,135	2,345	1,798

The Group attained plant utilisation of 91%, which was comparable to the corresponding period. Production and sales volumes were higher largely contributed by urea production from PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd. (PCFSSB) which commenced commercial operation in May 2017.

Overall average product prices improved from the corresponding period on the back of higher crude oil price.

The Group's revenue was higher than the corresponding period by RM1.8 billion or 15% at RM14.5 billion primarily driven by higher product prices and volumes, partially negated by the strengthening of Ringgit Malaysia against US Dollar.

Correspondingly, EBITDA increased by RM388 million or 8% to RM5.3 billion contributed by higher revenue. Profit after tax also increased by RM394 million or 12% to RM3.8 billion in line with higher EBITDA.

[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

Plant utilisation was higher at 95% in the current period compared to 92% in the corresponding period driven by lower statutory turnaround activities in the segment. Production and sales volumes were also higher with improved plant utilisation.

Average product prices strengthened in tandem with higher crude oil price.

The segment achieved higher revenue by RM679 million or 8% at RM9.1 billion mainly driven by higher product prices and volumes, partially offset by the strengthening of Ringgit Malaysia against US Dollar.

Nonetheless, EBITDA decreased by RM119 million or 4% to RM3.0 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 remained comparable at RM2.1 billion as the segment recorded lower tax expense.

Fertilisers and Methanol

The segment achieved comparable plant utilisation of 89% against 90% in the corresponding period. However, both production and sales volumes increased, contributed by urea production from PCFSSB which commenced commercial operation in May 2017.

Average product prices strengthened across all products in line with higher crude oil price.

Revenue increased by RM1.2 billion or 27% to RM5.5 billion mainly due to higher prices and volumes, partially negated by the strengthening of Ringgit Malaysia against US Dollar.

EBITDA was higher by RM547 million or 30% at RM2.3 billion driven by higher revenue. Correspondingly, profit after tax increased by RM519 million or 43% to RM1.7 billion.

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 September 2018	30 June 2018
Revenue	4,830	4,733
Profit after tax	1,272	1,380
EBITDA[4]	1,628	1,811

Plant utilisation for the Group was lower at 79% in current quarter compared to 95% in the preceding quarter primarily driven by higher level of statutory turnaround activities at its urea and methanol plants as well as its cracker and related downstream facilities. Production and sales volumes decreased as a result of the lower plant utilisation.

Overall average product prices improved with higher crude oil price.

The Group achieved higher revenue by RM97 million or 2% at RM4.8 billion despite lower volumes, mainly due to higher product prices coupled with the weakening of Ringgit Malaysia against US Dollar.

Nonetheless, EBITDA decreased by RM183 million or 10% to RM1.6 billion primarily due to higher operating expenditure relating to maintenance activities undertaken during the statutory turnarounds. Profit after tax was also lower by RM108 million or 8% at RM1.3 billion following lower EBITDA, partially negated by lower tax expense and higher interest income.

(d) Highlight on consolidated statement of financial position

In RM Mil	As at 30.09.2018	As at 31.12.2017
Total assets	35,885	33,262
Total equity	29,927	28,868
ROE (%)	16.1	14.5

The Group's total assets were higher by RM2.6 billion or 8% at RM35.9 billion. This was primarily due to the increase in cash and cash equivalent by RM4.8 billion or 71% to RM11.4 billion; 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, dividend payment to shareholders and payment for the acquisition of a non-controlling interest in certain subsidiaries. However, the increase in total assets was partially offset by reduction in property, plant and equipment of RM2.2 billion or 11% to RM18.6 billion upon the abovementioned divestment.

Total equity was higher by RM1.0 billion or 4% at RM29.9 billion largely attributable to profit generated during the period, partially negated by dividend payment to shareholders 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

In RM Mil	Cumulative quarter ended 30 September 2018	2017
Net cash generated from operating activities	5,125	4,232
Net cash used in investing activities	(1,230)	(2,708)
Net cash generated from/(used in) financing activities	891	(2,352)

Net cash generated from operating activities increased by RM893 million or 21% to RM5.1 billion primarily contributed by the higher profit generated and changes in working capital during the period.

Net cash used in investing activities was lower by RM1.5 billion or 55% at RM1.2 billion largely contributed by proceeds from divestment of 50% equity interest in a subsidiary as well as lower capital investment in petrochemicals projects within PIC.

The Group generated net cash from financing activities of RM891 million as compared to net cash used in the corresponding period of RM2.4 billion following term loan drawdown by a subsidiary in the current period, partially offset by 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 price, 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 soften in the coming quarter. This is in view of ample supply from the Middle East and North-East Asia whilst slowing down of demand following regional planned turnarounds.

Fertilisers and Methanol

The Group expects the Fertiliser and Methanol segment to stabilise as supplies resume after turnarounds and healthy demand from further downstream industries.

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 September 2018	2017	Cumulative quarter ended 30 September 2018	2017
Included in operating profit are the following charges:				
Depreciation and amortisation	415	414	1,226	1,166
Net loss on foreign exchange	8	1	8	11
Loss on disposal of property, plant and equipment	-	4	-	10
Loss on partial divestment of a subsidiary	-	-	153	-
Inventories written down to net realisable value	2	-	5	-
and credits:				
Interest income	92	47	219	143

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 natural hedge as most of its revenue and expenses are denominated in US Dollar. In addition, the Group, where applicable, hedge using derivative instruments in respect of current and forecast transactions.

B5. NET FINANCING COSTS

In RM Mil	Individual quarter ended 30 September 2018	2017	Cumulative quarter ended 30 September 2018	2017
Unwinding of discount factor for other long term liabilities and provisions	4	5	11	15
Financial guarantee fee on term loan	1	-	2	-
	5	5	13	15

PART B – OTHER EXPLANATORY NOTES (continued)

B6. TAX EXPENSE

In RM Mil	Individual quarter ended 30 September 2018	2017	Cumulative quarter ended 30 September 2018	2017
Current tax expenses				
Current period tax	72	130	384	528
Over provision in respect of prior periods	(8)	(2)	(6)	(1)
	64	128	378	527
Deferred tax expenses				
Origination and reversal of temporary differences	2	13	23	57
Under/(Over) provision in respect of prior periods	4	14	13	(35)
	6	27	36	22
	70	155	414	549

The Group's effective tax rates for the individual and cumulative quarters ended 30 September 2018 are 5% and 10% 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 30.09.2018	As at 31.12.2017
Trade receivables:		
- Third party	1,561	1,539
- Joint ventures and associates	264	261
- Related companies	106	99
Other receivables	641	471
	2,572	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 30.09.2018	As at 31.12.2017
Current	1,915	1,884
Past due 1 to 30 days	16	15
	1,931	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 30.09.2018	As at 31.12.2017	As at 30.09.2018	As at 31.12.2017
Current				
Term loan - unsecured	500	-	2,072	-

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 30.09.2018
In RM Mil					
Term loan - unsecured	-	3,886	(1,931)	117	2,072

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 September 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. 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 September		Cumulative quarter ended 30 September	
	2018	2017	2018	2017
In RM Mil				
Profit for the period attributable to shareholders of the Company	1,257	913	3,694	3,172
In millions of shares				
Number of ordinary shares issued	8,000	8,000	8,000	8,000
In sen				
Basic earnings per share	16	11	46	40

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.

B14. EXCHANGE RATES

	Individual quarter ended			Cumulative quarter ended		
USD/MYR	30.09.2018	30.06.2018	30.09.2017	30.09.2018	31.12.2017	30.09.2017
Average rate	4.0930	3.9487	4.2616	3.9888	4.3002	4.3472
Closing rate	4.1445	4.0455	4.2265	4.1445	4.0595	4.2265

By order of the Board

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

Kuala Lumpur
16 November 2018