PETRONAS CHEMICALS GROUP BERHAD

Quarterly Report

For Third Quarter Ended 30 September 2019

PETRONAS CHEMICALS GROUP BERHAD (459830-K)

QUARTERLY REPORT

FOR THIRD QUARTER ENDED 30 SEPTEMBER 2019

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 2019 which should be read in conjunction with the accompanying explanatory notes on pages 6 to 23.

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

In RM Mil	Note	Individual quarter ended 30 September 2019	Individual quarter ended 30 September 2018 Restated	Cumulative quarter ended 30 September 2019	Cumulative quarter ended 30 September 2018 Restated
Revenue		3,669	4,830	12,136	14,514
Cost of revenue		(2,775)	(3,267)	(8,450)	(9,347)
Gross profit		894	1,563	3,686	5,167
Selling and distribution expenses		(195)	(194)	(646)	(598)
Administration expenses		(152)	(148)	(530)	(513)
Other expenses		(34)	(10)	(50)	(181)
Other income		140	121	403	324
Operating profit	B4	653	1,332	2,863	4,199
Financing income/(costs)	A2	3	(5)	(18)	(13)
Share of (loss)/profit of equity-accounted joint ventures and associates, net of tax		(12)	41	(59)	66
Profit before taxation		644	1,368	2,786	4,252
Tax expense	B5	(86)	(146)	(303)	(403)
PROFIT FOR THE PERIOD		558	1,222	2,483	3,849
Other comprehensive income/(expenses)					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		79	134	83	230
Share of other comprehensive income of equity-accounted joint ventures and associates		12	37	26	24
Total other comprehensive income for the period		91	171	109	254
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		649	1,393	2,592	4,103
Profit attributable to:					
Shareholders of the Company		553	1,205	2,471	3,778
Non-controlling interests		5	17	12	71
PROFIT FOR THE PERIOD		558	1,222	2,483	3,849
Total comprehensive income attributable to:					
Shareholders of the Company		644	1,377	2,580	4,033
Non-controlling interests		5	16	12	70
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		649	1,393	2,592	4,103
Basic earnings per share attributable to shareholders of the Company:					
Based on ordinary shares issued (sen)	B12	7	15	31	47

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 30.09.2019	As at 31.12.2018 Restated
ASSETS			
Property, plant and equipment		20,442	19,080
Prepaid lease payments		-	28
Investments in joint ventures and associates		1,109	1,232
Intangible assets		553	-
Long term receivables		-	29
Deferred tax assets		960	237
TOTAL NON-CURRENT ASSETS		23,064	20,606
Trade and other inventories		1,836	1,698
Trade and other receivables	B7	1,712	2,668
Tax recoverable		68	64
Cash and cash equivalents		12,165	12,329
TOTAL CURRENT ASSETS		15,781	16,759
TOTAL ASSETS		38,845	37,365
EQUITY			
Share capital		8,871	8,871
Reserves		20,944	20,693
Total equity attributable to shareholders of the Company		29,815	29,564
Non-controlling interests		644	684
TOTAL EQUITY		30,459	30,248
LIABILITIES			
Lease liabilities		647	-
Deferred tax liabilities		887	1,320
Other long term liabilities and provisions		1,643	583
TOTAL NON-CURRENT LIABILITIES		3,177	1,903
Borrowings	B8	2,094	2,072
Lease liabilities		79	-
Trade and other payables		2,840	3,001
Current tax payables		196	141
TOTAL CURRENT LIABILITIES		5,209	5,214
TOTAL LIABILITIES		8,386	7,117
TOTAL EQUITY AND LIABILITIES		38,845	37,365
Net assets per share attributable to the shareholders of the Company (RM)		3.73	3.70

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**	**Foreign Currency Translation Reserve**	**Merger Reserve**	**Other Reserves**
Cumulative quarter ended 30 September 2019				
At 1 January 2019, as previously reported	8,871	(77)	(204)	604
- Effect of the adoption of MFRS 16	-	-	-	-
At 1 January 2019, restated	8,871	(77)	(204)	604
Foreign currency translation differences	-	87	-	(4)
Share of other comprehensive income of equity-accounted joint ventures and associates	-	-	-	26
Total other comprehensive income for the period	-	87	-	22
Profit for the period	-	-	-	-
Total comprehensive income for the period	-	87	-	22
Additional shares issued to a non-controlling interest	-	-	-	-
Redemption of Redeemable Preference Shares in subsidiaries	-	-	-	238
Dividends to shareholders of the Company	-	-	-	-
Dividends to non-controlling interests	-	-	-	-
Acquisition of a subsidiary	-	-	-	-
Total transactions with owners of the Group	-	-	-	238
Balance at 30 September 2019	8,871	10	(204)	864
Cumulative quarter ended 30 September 2018				
At 1 January 2018	8,871	(244)	(204)	461
- Effect of change in accounting policy	-	-	-	-
Balance at 1 January 2018, restated	8,871	(244)	(204)	461
Foreign currency translation differences	-	231	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	24
Total other comprehensive income 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 owners of the Group	-	-	-	87
Balance at 30 September 2018	8,871	(13)	(204)	572

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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 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 September 2019				
At 1 January 2019, as previously reported	20,370	29,564	684	30,248
- Effect of the adoption of MFRS 16	(9)	(9)	-	(9)
At 1 January 2019, restated	20,361	29,555	684	30,239
Foreign currency translation differences	-	83	-	83
Share of other comprehensive income of equity-accounted joint ventures and associates	-	26	-	26
Total other comprehensive income for the period	-	109	-	109
Profit for the period	2,471	2,471	12	2,483
Total comprehensive income for the period	2,471	2,580	12	2,592
Additional shares issued to a non-controlling interest	-	-	5	5
Redemption of Redeemable Preference Shares in subsidiaries	(238)	-	-	-
Dividends to shareholders of the Company	(2,320)	(2,320)	-	(2,320)
Dividends to non-controlling interests	-	-	(63)	(63)
Acquisition of a subsidiary	-	-	6	6
Total transactions with owners of the Group	(2,558)	(2,320)	(52)	(2,372)
Balance at 30 September 2019	20,274	29,815	644	30,459
Cumulative quarter ended 30 September 2018				
At 1 January 2018	18,981	27,865	1,003	28,868
- Effect of change in accounting policy	(724)	(724)	(18)	(742)
Balance at 1 January 2018, restated	18,257	27,141	985	28,126
Foreign currency translation differences	-	231	(1)	230
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	24	-	24
Total other comprehensive income for the period	-	255	(1)	254
Profit for the period	3,778	3,778	71	3,849
Total comprehensive income for the period	3,778	4,033	70	4,103
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 owners of the Group	(2,655)	(2,568)	(386)	(2,954)
Balance at 30 September 2019	19,380	28,606	669	29,275

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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

In RM Mil	Cumulative quarter ended 30 September 2019	2018 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**2,786**	4,252
Adjustments for:		
- Depreciation and amortisation	**1,216**	1,226
- Financing costs	**18**	13
- Interest income	**(275)**	(219)
- Loss on partial divestment of a subsidiary	**-**	153
- Share of loss/(profit) of equity-accounted joint ventures and associates, net of tax	**59**	(66)
- Other non-cash items	**(2)**	(106)
Operating profit before changes in working capital	**3,802**	5,253
Change in trade and other inventories	**(59)**	58
Change in trade and other receivables	**1,128**	(181)
Change in trade and other payables	**(299)**	85
Cash generated from operations	**4,572**	5,215
Interest income received	**252**	213
Taxation paid	**(169)**	(303)
Net cash generated from operating activities	**4,655**	5,125
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from joint ventures and associates	**92**	74
Increase in investment in an associate	**-**	(21)
Payment for acquisition of a subsidiary, net of cash acquired	**(769)**	-
Payment of cost for acquisition of a subsidiary	**(20)**	
Payment for settlement of forward foreign exchange contract	**(902)**	-
Proceeds from settlement of forward foreign exchange contract	**898**	-
Proceeds from partial divestment of equity and shareholder loans in a subsidiary, net of cash divested	**-**	969
Proceeds from sales of property, plant and equipment	**-**	1
Purchase of property, plant and equipment	**(1,714)**	(2,253)
Net cash used in investing activities	**(2,415)**	(1,230)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to:		
- PETRONAS	**(1,493)**	(1,493)
- others (third parties)	**(827)**	(827)
- non-controlling interests	**(63)**	-
Drawdown of term loan	**-**	3,886
Payment to a non-controlling interest on additional equity interest	**-**	(634)
Proceeds from shares issued to a non-controlling interest	**5**	-
Repayment of lease liabilities	**(92)**	(41)
Net cash (used in)/generated from financing activities	**(2,470)**	891
Net cash flows from operating, investing and financing activities	**(230)**	4,786
Effect of foreign currency translation differences	**30**	(36)
Net (decrease)/increase in cash and cash equivalents	**(200)**	4,750
Net foreign exchange differences on cash held	**36**	12
Cash and cash equivalents at beginning of the period	**12,329**	6,674
Cash and cash equivalents at end of the period	**12,165**	11,436

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 2018. 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 2018.

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 2019.

A2. ADOPTION OF NEW & REVISED PRONOUNCEMENTS AND 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 audited consolidated financial statements for the year ended 31 December 2018.

As of 1 January 2019, the Group has adopted the following new MFRSs, and amendments to MFRS and IC interpretation (collectively referred to as "pronouncements") which are effective for annual periods beginning on or after 1 January 2019.

MFRS 16	*Leases*
Amendments to MFRS 3	*Business Combinations (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 11	*Joint Arrangements (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 112	*Income Taxes (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 119	*Employee Benefits: Plan Amendment, Curtailment or Settlement*
Amendments to MFRS 123	*Borrowing Costs (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 128	*Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*
IC Interpretation 23	*Uncertainty over Income Tax Treatments*

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

(i) MFRS 16 *Leases*

MFRS 16 replaces existing leases guidance in MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease,* IC Interpretation 115 *Operating Leases – Incentives*, and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

MFRS 16 introduces a single, on balance sheet lease accounting for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance lease or operating lease.

Right-of-use assets including prepayments are included under property, plant and equipment whilst the corresponding liabilities are included as lease liabilities in the statement of financial position.

There was no material impact on the Group's consolidated financial statements upon initial application of MFRS 16.

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

A2. ADOPTION OF NEW & REVISED PRONOUNCEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Amendments to MFRS 123 *Borrowing Costs*

In previous years, borrowing costs relating to a specific qualifying assets is capitalised into the cost of the asset. The capitalisation of borrowing costs cease when substantially all activities necessary to prepare the qualifying asset for its intended use or sale are completed. Any borrowing costs incurred subsequently were expensed off to profit or loss.

Following the amendments, borrowing costs arising from specific borrowings incurred after the completion of the specific qualifying asset are treated as general borrowings. General borrowing costs are capitalised to qualifying assets by applying a capitalisation rate. These amendments are applied prospectively as allowed by the transitional provisions of MFRS 123.

The adoption of this pronouncement did not have a significant impact on the Group's consolidated financial statements.

On 13 August 2019, the Group changed its accounting policy on investment tax credit. In the previous financial years, all tax incentives were recognised as tax credits. Consequently, all tax incentives granted were recognised in profit or loss, and any untilised portion of the tax credits were recognised as deferred tax asset (subject to availability of future taxable profits). There is no accounting standard that provides guidance on investment tax credits. In the current year, the Group decided to revisit and change the accounting policy on investment tax credits where tax incentives with the features similar to government grant are recognised as deferred tax assets (subject to availability of future taxable profits) with a corresponding deferred income. The deferred income is amortised to profit or loss as other income on a systematic basis over the periods in which the related costs, for which the tax incentives are intended to compensate, are expensed to profit or loss. The Group continues to account for tax incentives that do not have features similar to government grant as tax credits.

The measurement of certain tax incentives using government grant method provides more relevant and fair information to the financial statements users. In addition, the accounting method will reflect the substance of the tax incentives.

This change in accounting policy has been made retrospectively and the impact on comparative information are disclosed in Appendix 1.

A3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The audited financial statements of PCG and its subsidiaries for the year ended 31 December 2018 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 except for the recognition of deferred tax asset with a corresponding deferred income amounting to RM1.2 billion upon receipt of approval for investment tax allowance at a subsidiary.

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

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 2018 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 period under review, other than as disclosed in note B8.

A8. DIVIDEND PAID

During the period under review, the Company paid:

(i) A second interim single tier dividend of 18 sen per ordinary share, amounting to RM1,440 million in respect of the financial year ended 31 December 2018 to shareholders on 27 March 2019.

(ii) A first interim single tier dividend of 11 sen per ordinary share, amounting to RM880 million in respect of the financial year ending 31 December 2019 to shareholders on 13 September 2019.

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 as well as activities related to specialty chemicals.

9.1 Revenue

	Cumulative quarter ended 30 September					
	2019	2018	2019	2018	2019	2018
In RM Mil	Third Parties		Inter-segment		Gross Total	
Olefins and Derivatives	**7,375**	9,059	**9**	13	**7,384**	9,072
Fertilisers and Methanol	**4,725**	5,413	**-**	106	**4,725**	5,519
Others	**36**	42	**34**	36	**70**	78
Total	**12,136**	14,514	**43**	155	**12,179**	14,669

9.2 Segment Profit for the Period[1]

	Cumulative quarter ended 30 September	
In RM Mil	2019	2018
Olefins and Derivatives	**1,131**	2,193
Fertilisers and Methanol	**1,360**	1,770
Others	**(8)**	(114)
Total	**2,483**	3,849

[1] Included within profit for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM577 million (2018: RM605 million), RM618 million (2018: RM605 million) and RM21 million (2018: RM16 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 September 2019, all property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

A11. SIGNIFICANT AND SUBSEQUENT EVENTS

(i) The Group via its joint operation company, Pengerang Petrochemical Company Sdn. Bhd. (PPC) had procured the first phase of the project financing amounting to USD0.4 billion on 1 April 2019, followed by the execution of the remaining project financing for USD0.6 billion on 17 October 2019. The execution of the latter marks the completion of project financing for PPC totalling USD1.0 billion and will be utilised towards the repayment of the bridge loan as disclosed in note B8. The project financing is expected to be drawn down by end of December 2019.

The execution of the project financing was not expected to have any material impact on the earnings of the Group for the financial year ending 31 December 2019.

Further details of the agreements are as stated in separate Bursa Announcements issued on 2 April 2019 and 18 October 2019.

(ii) On 15 May 2019, PCG entered into a Sale and Purchase Agreement to acquire 100% of the shares in Da Vinci Group B.V. (Da Vinci) from its shareholders including, among others, funds managed by Bencis Capital Partners for a purchase consideration of EUR163 million in cash.

On 12 September 2019, PCG has fulfilled all the required conditions precedent and completed the acquisition accordingly. Following completion, Da Vinci has become a wholly-owned subsidiary of PCG.

Further details of the sale and purchase agreement and acquisition are as stated in separate Bursa Announcements issued on 16 May 2019 and 13 September 2019 respectively.

Effects of the above transaction are as below:

In RM Mil	**At fair value**
Non-current assets	**62**
Trade and other inventories	**188**
Trade and other receivables	**154**
Cash and cash equivalents	**35**
Non-current liabilities	**(1)**
Trade and other payables	**(330)**
Net identifiable assets and liabilities	**108**
Less: Non-controlling interest	**(6)**
Add: Goodwill on acquisition	**552**
Purchase consideration	**654**
Add: Settlement of existing loans	**231**
Less: Deferred consideration	**(81)**
Payment for acquisition	**804**
Less: Cash and cash equivalents acquired	**(35)**
Payment for acquisition, net of cash acquired	**769**

The above fair value is based on provisional figures of which will be finalised within 12 months after the acquisition date.

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

A12. CONTINGENCIES

There were no material contingent liabilities or contingent assets since the last audited consolidated statement of financial position as at 31 December 2018.

A13. CHANGES IN COMPOSITION OF THE GROUP

There were no other material changes in the composition of the Group for the period under review 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 30.09.2019**	**As at 31.12.2018**
Property, plant and equipment:		
Approved and contracted for	**581**	1,028
Approved but not contracted for	**564**	1,438
	1,145	2,466
Investment in shares:		
Approved but not contracted for	**18**	-
Total	**1,163**	2,466

A15. FAIR VALUE INFORMATION

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

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

A15. FAIR VALUE INFORMATION (continued)

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.

The following table analyses financial instruments carried at fair value shown in the statement of financial position.

As at 30 September 2019
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	-	2	-	2	333
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(2)	-	(2)	(123)

As at 31 December 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	-	10	-	10	1,330
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(8)	-	(8)	(978)

PART B – OTHER EXPLANATORY NOTES

B1. REVIEW OF GROUP PERFORMANCE

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

	Individual quarter ended 30 September					
	2019	2018	2019	2018	2019	2018
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**3,669**	4,830	**2,281**	3,163	**1,381**	1,686
Profit after tax	**558**	1,222	**232**	762	**315**	427
EBITDA[2]	**915**	1,628	**416**	965	**545**	688

PCG Group recorded plant utilisation of 81%, which had improved from the corresponding quarter of 79%, mainly due to better plant performance. Correspondingly, production and sales volumes increased.

Overall average products prices for the Group decreased from the corresponding quarter in tandem with declining crude oil price and softer market demand.

Revenue was lower by RM1.2 billion or 24% at RM3.7 billion mainly due to lower product prices, partially offset by higher sales volume and the weakening of Ringgit Malaysia against US Dollar.

EBITDA decreased by RM713 million or 44% at RM915 million largely due to compressed margin. Profit after tax also reduced by RM664 million or 54% at RM558 million following lower EBITDA, partially offset by lower tax expense.

Olefins and Derivatives

The segment recorded lower plant utilisation of 78% compared to 96% in the corresponding quarter primarily due to higher statutory turnaround activities. Sales volume was lower in line with lower production.

Average product prices for the segment declined as crude oil prices decreased.

Revenue was lower by RM882 million or 28% at RM2.3 billion as a result of lower product prices and sales volume, partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA for the segment decreased by RM549 million or 57% at RM416 million mainly due to compressed margin. Profit after tax was also lower by RM530 million or 70% at RM232 million largely due to lower EBITDA and net share of losses from associates as compared to net share of profits in the corresponding quarter primarily due to planned maintenance activities as well as lower prices, partially offset by lower tax expense.

[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's operational performance was better with plant utilisation of 83% compared to 69% in the corresponding quarter mainly due to better plant performance and lower statutory turnaround activities. Production and sales volumes were higher in line with higher plant utilisation.

Average product prices for the segment declined as crude oil prices decreased and softer market demand.

The segment's revenue decreased by RM305 million or 18% at RM1.4 billion due to decline in product prices, partially offset by higher sales volume and the weakening of Ringgit Malaysia against US Dollar.

EBITDA decreased by RM143 million or 21% at RM545 million in line with lower revenue. Consequently, profit after tax decreased by RM112 million or 26% at RM315 million, partially offset by lower tax expense.

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

	Cumulative quarter ended 30 September					
	2019	2018	2019	2018	2019	2018
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**12,136**	14,514	**7,384**	9,072	**4,725**	5,519
Profit after tax	**2,483**	3,849	**1,131**	2,193	**1,360**	1,770
EBITDA[3]	**3,698**	5,279	**1,803**	3,016	**2,044**	2,345

The Group's plant utilisation was at 93%, higher than 91% in the corresponding period. Production and sales volumes were comparable against the corresponding period.

Overall average product prices were lower than corresponding period in tandem with lower crude oil price.

Revenue was lower by RM2.4 billion or 16% at RM12.1 billion largely due to lower product prices partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA was lower by RM1.6 billion or 30% at RM3.7 billion mainly due to compressed margin. Profit after tax also decreased by RM1.4 billion or 36% at RM2.5 billion following lower EBITDA and net share of losses from joint ventures and associates as compared to net share of profits in the corresponding period, partially offset by lower tax expense. In addition, there was an impact of foreign exchange gain on the Company shareholder loans pursuant to the divestment of 50% equity interest in a subsidiary in the corresponding period.

[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 decreased from 95% in the corresponding period to 91% in the current period primarily due to higher level of statutory turnaround activities, resulting in lower production and sales volumes.

Average product prices for the segment declined as crude oil prices decreased.

Revenue decreased by RM1.7 billion or 19% at RM7.4 billion largely attributable to lower product prices and sales volume, partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA was lower by RM1.2 billion or 40% at RM1.8 billion mainly due to compressed margin. Profit after tax also decreased by RM1.1 billion or 48% at RM1.1 billion, partially offset by lower tax expense.

Fertilisers and Methanol

The segment achieved plant utilisation of 94% compared to 89% in the corresponding period supported by improved plant performance and lower statutory turnaround activities. Production volume increased following better plant performance. However, sales volume decreased following softer demand.

Average product prices for the segment was lower mainly for methanol in tandem with lower crude oil price.

The segment recorded lower revenue by RM794 million or 14% at RM4.7 billion mainly due to lower prices and sales volume, partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA was lower by RM301 million or 13% at RM2.0 billion following lower revenue. Profit after tax also decreased from the corresponding period by RM410 million or 23% at RM1.4 billion due to lower EBITDA, lower net share of profits from a joint venture following lower prices, and higher tax expense.

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 2019	30 June 2019
Revenue	**3,669**	4,337
Profit after tax	**558**	1,112
EBITDA[4]	**915**	1,521

The Group recorded lower plant utilisation at 81% from 100% in the preceding quarter, mainly due to statutory turnaround and higher level of maintenance activities undertaken in the current quarter. Sales volume was lower in line with lower production.

Overall average product prices were slightly higher despite lower crude oil price.

Revenue decreased by RM668 million or 15% at RM3.7 billion largely due to lower sales volume.

EBITDA was lower by RM606 million or 40% at RM915 million mainly due to lower revenue and higher maintenance costs during turnaround period. Profit after tax decreased by RM554 million or 50% at RM558 million.

(d) Highlight on consolidated statement of financial position

In RM Mil	As at 30.09.2019	As at 31.12.2018
Total assets	**38,845**	37,365
Total equity	**30,459**	30,248
ROE (%)	**12.1**	16.1

The Group's total assets were higher by RM1.5 billion or 4% at RM38.8 billion. This was primarily due to the increase in the capital investment in the petrochemicals projects within PIC, acquisition of a subsidiary represented by various asset components and increase in deferred tax asset by RM723 million at RM960 million following recognition of investment tax allowance at a subsidiary. The increase in total assets was partially offset by reduction in trade and other receivables due to lower revenue and realisation of other receivables.

Total equity was also higher by RM211 million or 1% at RM30.5 billion largely attributable to profit generated during the period which was partially offset by dividend payments to shareholders.

[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 September	
In RM Mil	**2019**	**2018**
Net cash generated from operating activities	4,655	5,125
Net cash used in investing activities	(2,415)	(1,230)
Net cash (used in)/generated from financing activities	(2,470)	891

Net cash generated from operating activities decreased by RM470 million or 9% at RM4.7 billion primarily contributed by the lower profit generated during the period, partially offset by lower working capital requirements during the period.

Net cash used in investing activities was higher by RM1.2 billion or 96% at RM2.4 billion mainly attributable to acquisition of a subsidiary and proceeds from divestment of 50% equity interest in a subsidiary in the corresponding period, partially offset by lower capital investment in petrochemicals projects within PIC.

There was net cash used in financing activities of RM2.5 billion mainly due to dividend payment to shareholders. There was net cash generated from financing activities in the corresponding period of RM891 million following term loan drawdown by a subsidiary which was 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 product prices for Olefins and Derivatives segment to stabilise in the coming quarter. This is in view of supply limitation following planned regional turnarounds.

Fertilisers and Methanol

The Group expects that Fertiliser and Methanol product prices to also stabilise due to limited supply amidst soft demand from the end products.

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 2019	Individual quarter ended 30 September 2018	Cumulative quarter ended 30 September 2019	Cumulative quarter ended 30 September 2018
Included in operating profit are the following charges:				
Depreciation and amortisation	**404**	415	**1,216**	1,226
Net loss on foreign exchange	**-**	8	**-**	8
Loss on partial divestment of a subsidiary	**-**	-	**-**	153
Inventories written down to net realisable value	**63**	2	**106**	5
and credits:				
Interest income	**87**	92	**275**	219
Amortisation of deferred income	**31**	26	**84**	79
Net gain on foreign exchange	**19**	-	**33**	-

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.

PART B – OTHER EXPLANATORY NOTES (continued)

B5. TAX EXPENSE

In RM Mil	Individual quarter ended 30 September 2019	2018	Cumulative quarter ended 30 September 2019	2018
Current tax expenses				
Current period tax	7	58	228	370
Over provision in respect of prior periods	(6)	-	(6)	2
	1	58	222	372
Deferred tax expenses				
Origination and reversal of temporary differences	93	88	90	22
(Over)/under provision in respect of prior periods	(8)	-	(9)	9
	85	88	81	31
	86	146	303	403

The Group's effective tax rates for the individual and cumulative quarters ended 30 September 2019 are 13% and 11% respectively, which are 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.

B6. STATUS OF CORPORATE PROPOSALS

There was no new corporate proposal during the period under review since the last audited consolidated financial statements for the year ended 31 December 2018.

B7. TRADE AND OTHER RECEIVABLES

(a) Details of Group trade and other receivables

In RM Mil	As at 30.09.2019	As at 31.12.2018
Trade receivables:		
- Third party	1,167	1,700
- Joint ventures and associates	177	283
- Related companies	81	115
Other receivables	287	570
	1,712	2,668

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

PART B – OTHER EXPLANATORY NOTES (continued)

B7. TRADE AND OTHER RECEIVABLES (continued)

(b) Ageing analysis of trade receivables

In RM Mil	As at 30.09.2019	As at 31.12.2018
Current	**1,420**	2,027
Past due 1 to 30 days	**5**	66
Past due 31 to 60 days	**-**	5
	1,425	2,098

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.

B8. BORROWINGS

(a) Details of Group borrowings

	In USD Mil		*In RM Mil*	
	As at 30.09.2019	As at 31.12.2018	As at 30.09.2019	As at 31.12.2018
Current				
Term loan - unsecured	**500**	500	**2,094**	2,072

The term loan relates to the procurement of a bridge loan by the Group via its joint operation company, PPC, on 19 March 2018 amounting to USD1.0 billion from various local and international banks. The said proceeds was 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 repayment is upon procurement of project financing in phases as disclosed in note A11.

B9. DERIVATIVE FINANCIAL INSTRUMENTS

There were no changes to the Group's derivative financial instruments since the last audited consolidated financial statements for the year ended 31 December 2018, other than as disclosed in note A15.

B10. 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 period under review.

B11. MATERIAL LITIGATION

There was no pending material litigation since the last audited consolidated financial statements for the year ended 31 December 2018.

PART B – OTHER EXPLANATORY NOTES (continued)

B12. 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	
	2019	**2018**	**2019**	**2018**
In RM Mil				
Profit for the period attributable to shareholders of the Company	**553**	1,205	**2,471**	3,778
In millions of shares				
Number of ordinary shares issued	**8,000**	8,000	**8,000**	8,000
In sen				
Basic earnings per share	**7**	15	**31**	47

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.

B13. EXCHANGE RATES

	Individual quarter ended			Cumulative quarter ended		
USD/MYR	**30.09.2019**	**30.06.2019**	**30.09.2018**	**30.09.2019**	**31.12.2018**	**30.09.2018**
Average rate	**4.1657**	4.1481	4.0930	**4.1348**	4.0347	3.9888
Closing rate	**4.1870**	4.1415	4.1445	**4.1870**	4.1445	4.1445

By order of the Board

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

Kuala Lumpur
13 November 2019

APPENDIX 1 – IMPACT OF CHANGE IN ACCOUNTING POLICY

a) Reconciliation of consolidated statement of profit or loss and other comprehensive income for individual quarter ended 30 September 2018[1]

In RM Mil	As previously reported	Effect of change in accounting policy	As restated
Other income	95	26	121
Operating profit	1,306	26	1,332
Profit before taxation	1,342	26	1,368
Tax expense	(70)	(76)	(146)
PROFIT FOR THE PERIOD	1,272	(50)	1,222
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,443	(50)	1,393
Profit attributable to:			
Shareholders of the Company	1,257	(52)	1,205
Non-controlling interests	15	2	17
Total comprehensive income attributable to:			
Shareholders of the Company	1,429	(52)	1,377
Non-controlling interests	14	2	16

b) Reconciliation of consolidated statement of profit or loss and other comprehensive income for cumulative quarter ended 30 September 2018[1]

In RM Mil	As previously reported	Effect of change in accounting policy	As restated
Other income	245	79	324
Operating profit	4,120	79	4,199
Profit before taxation	4,173	79	4,252
Tax expense / (credit)	(414)	11	(403)
PROFIT FOR THE PERIOD	3,759	90	3,849
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	4,013	90	4,103
Profit attributable to:			
Shareholders of the Company	3,694	84	3,778
Non-controlling interests	65	6	71
Total comprehensive income attributable to:			
Shareholders of the Company	3,949	84	4,033
Non-controlling interests	64	6	70

[1] An extract of unaudited condensed consolidated financial statements of profit or loss and other comprehensive income on the affected lines.

APPENDIX 1 – IMPACT OF CHANGE IN ACCOUNTING POLICY (continued)

c) Reconciliation of consolidated statement of financial position as at 31 December 2018

In RM Mil	As previously reported	Effect of change in accounting policy	As restated
ASSETS	37,365	-	37,365
TOTAL ASSETS	37,365	-	37,365
EQUITY			
Share Capital	8,871	-	8,871
Reserves			
Retained Profits			
Balance as at 1 January 2018	18,981	(724)	18,257
Total comprehensive income for the year	4,979	(191)	4,788
Total transactions with owner of the Group	(2,675)	-	(2,675)
Balance as at 31 December 2018	21,285	(915)	20,370
Other reserves	323	-	323
Total equity attributable to shareholders of the Group	30,479	(915)	29,564
Non-controlling interests	695	(11)	684
TOTAL EQUITY	31,174	(926)	30,248
LIABILITIES			
Deferred tax liabilities	919	401	1,320
Other long term liabilities and provisions	163	420	583
TOTAL NON-CURRENT LIABILITIES	1,082	821	1,903
Trade and other payables	2,896	105	3,001
Other current liabilities	2,213	-	2,213
TOTAL CURRENT LIABILITIES	5,109	105	5,214
TOTAL LIABILITIES	6,191	926	7,117
TOTAL EQUITY AND LIABILITIES	37,365	-	37,365

APPENDIX 1 – IMPACT OF CHANGE IN ACCOUNTING POLICY (continued)

d) Reconciliation of consolidated statement of cash flows as at 30 September 2018

In RM Mil	**As previously reported**	**Effect of change in accounting policy**	**As restated**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation	4,173	79	4,252
Adjustments for:			
Other non-cash items	(27)	(79)	(106)
Other adjustments	1,107	-	1,107
Operating profit before changes in working capital	5,253	-	5,253
Changes in working capital	(38)	-	(38)
Cash generated from operations	5,215	-	5,215
Interest income received	213	-	213
Taxation paid	(303)	-	(303)
Net cash generated from operating activities	5,125	-	5,125
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	(1,230)	-	(1,230)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	891	-	891
Net cash flows from operating, investing and financing activities	4,786	-	4,786
Effect of foreign currency translation differences	(36)	-	(36)
Net increase in cash and cash equivalents	4,750	-	4,750
Net foreign exchange differences on cash held	12	-	12
Cash and cash equivalents at beginning of the period	6,674	-	6,674
Cash and cash equivalents at end of the period	11,436	-	11,436