PETRONAS CHEMICALS GROUP BERHAD
Quarterly Report
For Fourth Quarter and Year Ended 31 December 2019

PETRONAS CHEMICALS GROUP BERHAD (199801003704)

QUARTERLY REPORT

FOR FOURTH QUARTER AND YEAR ENDED 31 DECEMBER 2019

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 and year ended 31 December 2019 which should be read in conjunction with the accompanying explanatory notes on pages 7 to 24.

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

In RM Mil	Note	Individual quarter ended 31 December 2019	Individual quarter ended 31 December 2018 Restated	Year ended 31 December 2019	Year ended 31 December 2018 Restated
Revenue		4,234	5,062	16,370	19,576
Cost of revenue		(3,464)	(3,355)	(11,914)	(12,702)
Gross profit		770	1,707	4,456	6,874
Selling and distribution expenses		(232)	(220)	(878)	(818)
Administration expenses		(224)	(181)	(754)	(694)
Other expenses		(90)	(19)	(107)	(200)
Other income		153	179	523	503
Operating profit	B4	377	1,466	3,240	5,665
Financing costs		(13)	(4)	(31)	(17)
Share of profit/(loss) of equity-accounted joint ventures and associates, net of tax		5	42	(54)	108
Profit before taxation		369	1,504	3,155	5,756
Tax expense	B5	(57)	(479)	(360)	(882)
PROFIT FOR THE PERIOD		312	1,025	2,795	4,874
Other comprehensive income/(expenses)					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		(195)	(64)	(112)	166
Share of other comprehensive (expenses)/ income of equity-accounted joint ventures and associates		(20)	12	6	36
Total other comprehensive (expenses)/income for the period		(215)	(52)	(106)	202
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		97	973	2,689	5,076
Profit attributable to:					
Shareholders of the Company		340	1,010	2,811	4,788
Non-controlling interests		(28)	15	(16)	86
PROFIT FOR THE PERIOD		312	1,025	2,795	4,874
Total comprehensive income attributable to:					
Shareholders of the Company		125	958	2,705	4,991
Non-controlling interests		(28)	15	(16)	85
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		97	973	2,689	5,076
Basic earnings per share attributable to shareholders of the Company:					
Based on ordinary shares issued (sen)	B13	4	13	35	60

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 31.12.2019	As at 31.12.2018 Restated
ASSETS			
Property, plant and equipment		20,482	19,080
Prepaid lease payments		-	28
Investments in joint ventures and associates		1,058	1,232
Intangible assets		584	-
Long term receivables		-	29
Deferred tax assets		971	237
TOTAL NON-CURRENT ASSETS		23,095	20,606
Trade and other inventories		1,658	1,698
Trade and other receivables	B7	1,994	2,668
Tax recoverable		71	64
Cash and cash equivalents		12,045	12,329
TOTAL CURRENT ASSETS		15,768	16,759
TOTAL ASSETS		38,863	37,365
EQUITY			
Share capital		8,871	8,871
Reserves		21,062	20,693
Total equity attributable to shareholders of the Company		29,933	29,564
Non-controlling interests		605	684
TOTAL EQUITY		30,538	30,248
LIABILITIES			
Borrowings		1,875	-
Lease liabilities		627	-
Deferred tax liabilities		906	1,320
Other long term liabilities and provisions		1,699	583
TOTAL NON-CURRENT LIABILITIES		5,107	1,903
Borrowings	B8	-	2,072
Lease liabilities		78	-
Trade and other payables		3,063	3,001
Current tax payables		77	141
TOTAL CURRENT LIABILITIES		3,218	5,214
TOTAL LIABILITIES		8,325	7,117
TOTAL EQUITY AND LIABILITIES		38,863	37,365
Net assets per share attributable to shareholders of the Company (RM)		3.74	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**
Year ended 31 December 2019				
Balance at 1 January 2019, as previously reported	8,871	(77)	(204)	604
- Effect of adoption of MFRS 16	-	-	-	-
Balance at 1 January 2019, restated	8,871	(77)	(204)	604
Foreign currency translation differences	-	(108)	-	(4)
Share of other comprehensive income of equity-accounted joint ventures and associates	-	-	-	6
Total other comprehensive (expenses)/income for the year	-	(108)	-	2
Profit for the year	-	-	-	-
Total comprehensive (expenses)/income for the year	-	(108)	-	2
Redemption of redeemable preference shares in subsidiaries	-	-	-	381
Additional shares issued to a non-controlling interest	-	-	-	-
Additional equity interest in a subsidiary	-	-	-	-
Dividends to shareholders of the Company	-	-	-	-
Dividends to non-controlling interests	-	-	-	-
Total transactions with owners of the Group	-	-	-	381
Acquisition of a subsidiary	-	-	-	-
Balance at 31 December 2019	8,871	(185)	(204)	987
Year ended 31 December 2018				
Balance at 1 January 2018, as previously reported	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	-	167	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	36
Total other comprehensive income/(expenses) for the year	-	167	-	36
Profit for the year	-	-	-	-
Total comprehensive income for the year	-	167	-	36
Redemption of redeemable preference shares in subsidiaries	-	-	-	107
Additional equity interests in subsidiaries	-	-	-	-
Dividends to shareholders of the Company	-	-	-	-
Total transactions with owners of the Group	-	-	-	107
Balance at 31 December 2018	8,871	(77)	(204)	604

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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)

In RM Mil	*Attributable to shareholders of the Company* *Distributable* Retained Profits	Total	Non-controlling Interests	Total Equity
Year ended 31 December 2019				
Balance at 1 January 2019, as previously reported	20,370	29,564	684	30,248
- Effect of adoption of MFRS 16	(11)	(11)	(1)	(12)
Balance at 1 January 2019, restated	20,359	29,553	683	30,236
Foreign currency translation differences	-	(112)	-	(112)
Share of other comprehensive income of equity-accounted joint ventures and associates	-	6	-	6
Total other comprehensive (expenses)/income for the year	-	(106)	-	(106)
Profit for the year	2,811	2,811	(16)	2,795
Total comprehensive (expense)/income for the year	2,811	2,705	(16)	2,689
Redemption of redeemable preference shares in subsidiaries	(381)	-	-	-
Additional shares issued to a non-controlling interest	-	-	5	5
Additional equity interest in a subsidiary	(5)	(5)	(5)	(10)
Dividends to shareholders of the Company	(2,320)	(2,320)	-	(2,320)
Dividends to non-controlling interests	-	-	(68)	(68)
Total transactions with owners of the Group	(2,706)	(2,325)	(68)	(2,393)
Acquisition of a subsidiary	-	-	6	6
Balance at 31 December 2019	20,464	29,933	605	30,538
Year ended 31 December 2018				
Balance at 1 January 2018, as previously reported	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	-	167	(1)	166
Share of other comprehensive income of equity-accounted joint ventures and associates	-	36	-	36
Total other comprehensive income/(expenses) for the year	-	203	(1)	202
Profit for the year	4,788	4,788	86	4,874
Total comprehensive income for the year	4,788	4,991	85	5,076
Redemption of redeemable preference shares in subsidiaries	(107)	-	-	-
Additional equity interests 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	(2,675)	(2,568)	(386)	(2,954)
Balance at 31 December 2018	20,370	29,564	684	30,248

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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	Year ended 31 December 2019	2018 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	3,155	5,756
Adjustments for:		
- Depreciation and amortisation	1,659	1,619
- Financing costs	31	17
- Interest income	(377)	(315)
- Loss on partial divestment of a subsidiary	-	160
- Share of loss/(profit) of equity-accounted joint ventures and associates, net of tax	54	(108)
- Other non-cash items	(24)	(99)
Operating profit before changes in working capital	4,498	7,030
Change in trade and other inventories	181	(31)
Change in trade and other receivables	803	(292)
Change in trade and other payables	26	99
Cash generated from operations	5,508	6,806
Interest income received	377	304
Taxation paid	(341)	(443)
Net cash generated from operating activities	5,544	6,667
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from joint ventures and associates	126	124
Investment in an associate	-	(21)
Payment for acquisition of a subsidiary, net of cash acquired	(769)	-
Payment for transaction cost for acquisition of a subsidiary	*(30)	-
Payment for settlement of forward foreign exchange contract	(902)	-
Proceeds from settlement of forward foreign exchange contract	898	-
Proceeds from disposal of property, plant and equipment	1	2
Proceeds from partial divestment of equity and shareholder loans in a subsidiary, net of cash divested	-	969
Purchase of property, plant and equipment	(2,351)	(2,913)
Net cash used in investing activities	(3,027)	(1,839)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to:		
- PETRONAS	(1,493)	(1,493)
- others (third parties)	(827)	(827)
- non-controlling interests	(68)	-
Drawdown of term loans, net of transaction costs	1,895	3,886
Repayment of a term loan		
- principal	(2,071)	-
- interest	(58)	(44)
Payment to a non-controlling interest on additional equity interest	(10)	(634)
Proceeds from shares issued to a non-controlling interest	5	-
Payment of lease liabilities		
- principal	(81)	(49)
- interest	(50)	(7)
Net cash (used in)/generated from financing activities	(2,758)	832

* This includes among others, fees for professional services in respect of acquisition transaction.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In RM Mil	**2019**	**Year ended 31 December 2018 Restated**
Net cash flows from operating, investing and financing activities	**(241)**	5,660
Effect of foreign currency translation differences	**(5)**	(17)
Net (decrease)/increase in cash and cash equivalents	**(246)**	5,643
Net foreign exchange differences on cash held	**(38)**	12
Cash and cash equivalents at beginning of the year	**12,329**	6,674
Cash and cash equivalents at end of the year	**12,045**	12,329

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 consolidated 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 consolidated 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 and year ended 31 December 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 MFRS, 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 – 2017 Cycle)*
Amendments to MFRS 11	*Joint Arrangements (Annual Improvements 2015 – 2017 Cycle)*
Amendments to MFRS 112	*Income Taxes (Annual Improvements 2015 – 2017 Cycle)*
Amendments to MFRS 119	*Employee Benefits: Plan Amendment, Curtailment or Settlement*
Amendments to MFRS 123	*Borrowing Costs (Annual Improvements 2015 – 2017 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.

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*

Amendments to MFRS 123 provide clarity that any 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.

There was no material impact on the Group's consolidated financial statements upon initial application of MFRS 16 and amendments to MFRS 123.

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 unutilised 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 in previous quarter.

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 ended 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

					Year ended 31 December	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
In RM Mil	**Third Parties**		**Inter-segment**		**Gross Total**	
Olefins and Derivatives	**9,947**	12,280	**13**	17	**9,960**	12,297
Fertilisers and Methanol	**6,165**	7,241	**-**	128	**6,165**	7,369
Others	**258**	55	**44**	47	**302**	102
Total	**16,370**	19,576	**57**	192	**16,427**	19,768

9.2 Segment Profit[1]

	Year ended 31 December	
In RM Mil	**2019**	**2018**
Olefins and Derivatives	**1,176**	2,905
Fertilisers and Methanol	**1,690**	2,001
Others	**(71)**	(32)
Total	**2,795**	4,874

[1] Included within profit for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM794 million (2018: RM812 million), RM830 million (2018: RM785 million) and RM35 million (2018: RM22 million) respectively.

A10. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

There were no revaluations of property, plant and equipment for the period under review. As at 31 December 2019, all property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

A11. SIGNIFICANT 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. The project financing was drawn down in December 2019 and was utilised towards the repayment of the bridge loan as disclosed in note B8.

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

(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.

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

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.

The fair value of the net identifiable assets and goodwill as disclosed below are based on provisional figures which will be finalised within twelve months after the acquisition date. The goodwill, if any, reflect the synergy that Da Vinci will contribute to the Group.

The net profit contributed by these subsidiaries from the date of acquisition is not material in relation to the consolidated net profit of the Group for the financial year.

Effects of the above transaction are as below:

In RM Mil	
Non-current assets	**62**
Trade and other inventories	**188**
Trade and other receivables	**134**
Cash and cash equivalents	**35**
Non-current liabilities	**(2)**
Trade and other payables	**(340)**
Net identifiable assets	**77**
Less: Non-controlling interest	**(6)**
Add: Goodwill on acquisition	**583**
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**

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 (ii).

A14. CAPITAL COMMITMENTS

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

In RM Mil	**As at 31.12.2019**	**As at 31.12.2018**
Property, plant and equipment:		
Approved and contracted for	**604**	1,028
Approved but not contracted for	**1,748**	1,438
Total	**2,352**	2,466

A15. FAIR VALUE INFORMATION

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

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

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

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

Forward foreign exchange contracts

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

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

A15. FAIR VALUE INFORMATION (continued)

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

As at 31 December 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	-	7	-	7	467
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(7)	-	(7)	(672)

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 31 December					
	2019	2018	2019	2018	2019	2018
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**4,234**	5,062	**2,576**	3,224	**1,441**	1,850
Profit after tax	**312**	1,025	**45**	712	**329**	231
EBITDA[2]	**750**	1,686	**296**	1,032	**475**	677

PCG Group recorded lower plant utilisation of 89% as compared to 94% in the corresponding quarter mainly due to higher level of maintenance activities undertaken during the quarter. Consequently, production volume was lower. However, sales volume was higher due to product drawdown from inventory.

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

The Group's revenue decreased by RM828 million at RM4.2 billion mainly due to lower product prices and the strengthening of Ringgit Malaysia against US Dollar, partially offset by higher sales volume.

EBITDA decreased by RM936 million at RM750 million largely due to compressed margin. Profit after tax also reduced by RM713 million at RM312 million following lower EBITDA and foreign exchange loss on the Company shareholder loans pursuant to the divestment of 50% equity interest in a subsidiary, partially offset by lower tax expense.

Olefins and Derivatives

The segment recorded slightly lower plant utilisation of 98% as compared to 100% in the corresponding quarter due to higher level of maintenance activities. Correspondingly, sales and production volumes were lower.

Average product prices for the segment declined due to ample supply of products and decreased crude oil prices.

Revenue was lower by RM648 million at RM2.6 billion as a result of lower product prices, lower sales volume and the strengthening of Ringgit Malaysia against US Dollar.

EBITDA for the segment decreased by RM736 million at RM296 million mainly due to compressed margin. Profit after tax was lower by RM667 million at RM45 million largely due to lower EBITDA and net share of losses from joint ventures and associates as compared to net share of profits in the corresponding quarter, 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 lower with plant utilisation of 83% compared to 89% in the corresponding quarter mainly due to higher level of maintenance activities at its methanol plant resulting in lower production volume. However, sales volume was higher due to product drawdown from inventory.

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

Revenue was lower by RM409 million at RM1.4 billion largely attributable to lower product prices and the strengthening of Ringgit Malaysia against US Dollar, partially offset by higher sales volume.

EBITDA decreased by RM202 million at RM475 million in line with lower revenue. However, profit after tax increased by RM98 million at RM329 million mainly attributable to lower tax expense arising from recognition of deferred tax liabilities upon change in accounting policy in the corresponding quarter.

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

						Year ended 31 December
	2019	2018	2019	2018	2019	2018
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**16,370**	19,576	**9,960**	12,297	**6,165**	7,369
Profit after tax	**2,795**	4,874	**1,176**	2,905	**1,690**	2,001
EBITDA[3]	**4,448**	6,965	**2,099**	4,048	**2,520**	3,021

The Group's plant utilisation was at 92% which was comparable to the corresponding year. Consequently, production and sales volumes were comparable against the corresponding year.

Overall average product prices were lower than corresponding year in tandem with lower crude oil price and softer market demand.

Revenue decreased by RM3.2 billion at RM16.4 billion largely due to lower product prices partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA was lower by RM2.5 billion at RM4.4 billion mainly due to compressed margin. Profit after tax decreased by RM2.1 billion at RM2.8 billion following lower EBITDA and net share of losses from joint ventures and associates as compared to net share of profits in the corresponding year, partially offset by lower tax expense.

[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 year against the corresponding year (continued)

Olefins and Derivatives

Plant utilisation decreased to 93% in the current year from 97% in the corresponding year 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 and ample supply of products.

Revenue decreased by RM2.3 billion at RM10.0 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 RM1.9 billion at RM2.1 billion mainly due to compressed margin. Profit after tax also decreased by RM1.7 billion at RM1.2 billion due to lower EBITDA and lower net share of profits from associate, partially offset by lower tax expense.

Fertilisers and Methanol

Plant utilisation for the segment was at 91% against 89% in the corresponding year supported by improved plant performance and lower statutory turnaround activities. Production and sales volume were higher in line with better plant performance.

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

The segment recorded lower revenue by RM1.2 billion at RM6.2 billion mainly due to lower product prices partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA was lower by RM501 million at RM2.5 billion following lower revenue. Profit after tax decreased from the corresponding year by RM311 million at RM1.7 billion due to lower EBITDA, lower net share of profits from joint venture and associate resulting from lower prices, partially offset by lower 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 31 December 2019	30 September 2019
Revenue	**4,234**	3,669
Profit after tax	**312**	558
EBITDA[4]	**750**	915

The Group's plant utilisation improved from 81% to 89% primarily due to lower level of statutory turnaround activities in the current quarter as compared to the preceding quarter. Production and sales volumes increased on the back of better plant performance.

Revenue increased by RM565 million at RM4.2 billion on the back of higher sales volumes and additional revenue stream from newly acquired subsidiary.

However, EBITDA was lower by RM165 million at RM750 million mainly due to compressed margin. Profit after tax decreased by RM246 million at RM312 million due to lower EBITDA and foreign exchange loss on the Company shareholder loans pursuant to the divestment of 50% equity interest in a subsidiary.

(d) Highlight on consolidated statement of financial position

In RM Mil	As at 31.12.2019	As at 31.12.2018
Total assets	**38,863**	37,365
Total equity	**30,538**	30,248
ROE (%)	**9.2**	15.8

The Group's total assets were higher by RM1.5 billion or 4% at RM38.9 billion. This was primarily due to the increase in the capital investment in the petrochemicals projects within Pengerang Integrated Complex (PIC), acquisition of a subsidiary represented by various asset components and increase in deferred tax asset 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 higher by RM290 million or 1% at RM30.5 billion largely attributable to profit generated during the year which was partially offset by dividend payment 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

In RM Mil	Year ended 31 December 2019	2018
Net cash generated from operating activities	**5,544**	6,667
Net cash used in investing activities	**(3,027)**	(1,839)
Net cash (used in)/generated from financing activities	**(2,758)**	832

Net cash generated from operating activities decreased by RM1.1 billion at RM5.5 billion primarily contributed by the lower profit generated, partially offset by lower working capital during the year.

Net cash used in investing activities was higher by RM1.2 billion at RM3.0 billion mainly attributable to acquisition of a subsidiary and proceeds from divestment of 50% equity interest in a subsidiary in the corresponding year, partially offset by lower capital investment in petrochemicals projects within PIC.

There was net cash used in financing activities of RM2.8 billion mainly due to dividend payment to shareholders. There was net cash generated from financing activities in the corresponding year of RM832 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.

The Group expects that product prices to stabilise in the coming quarter. This is in view of supply limitation following planned regional plant turnarounds, supported by stable demand. However, we remain cautious amidst market uncertainties caused by the ongoing US-China trade disputes and the COVID-19 outbreak which can further dampen GDP growth.

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 31 December 2019	2018	Year ended 31 December 2019	2018
Included in operating profit are the following charges:				
Depreciation and amortisation	**443**	393	**1,659**	1,619
Net loss on foreign exchange	**72**	-	**39**	-
Loss on partial divestment of a subsidiary	**-**	7	**-**	160
Inventories:				
- (write-back)/written down to net realisable value	**(93)**	15	**13**	9
- written-off	**31**	3	**34**	3
Impairment loss on property, plant and equipment	**-**	2	**-**	2
and credits:				
Interest income	**102**	96	**377**	315
Net gain on foreign exchange	**-**	43	**-**	35
Amortisation of deferred income	**41**	26	**125**	106

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 31 December 2019	Individual quarter ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2018
Current tax expenses				
Current period tax	**43**	72	**268**	456
Under/(over) provision in respect of prior periods	**8**	(3)	**2**	(8)
	51	69	**270**	448
Deferred tax expenses				
Origination and reversal of temporary differences	**(5)**	412	**88**	424
Under/(over) provision in respect of prior periods	**11**	(2)	**2**	10
	6	410	**90**	434
Total	**57**	479	**360**	882

The Group's effective tax rates for the quarter and year ended 31 December 2019 are 15% 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 31.12.2019	As at 31.12.2018
Trade receivables:		
- Third party	**1.464**	1,700
- Joint ventures and associates	**203**	283
- Related companies	**105**	115
Other receivables	**222**	570
Total	**1,994**	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 31.12.2019	As at 31.12.2018
Current	1,748	2,027
Past due 1 to 30 days	22	66
Past due 31 to 60 days	2	5
Total	1,772	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

Details of Group borrowings

		In USD Mil		*In RM Mil*
	As at 31.12.2019	As at 31.12.2018	As at 31.12.2019	As at 31.12.2018
Non-current				
Term loans - secured	457	-	1,875	-
Current				
Term loan - unsecured	-	500	-	2,072

The secured term loans relate to project financing facility of a joint operation company amounting to USD914 million, net of transaction costs. The loans bear interest margin above 6-month LIBOR ranging from 0.80% to 1.74% per annum and are repayable from 2021 to 2034.

The loans are secured in the following manner:
(i) Completion guarantee from the ultimate holding company, PETRONAS on several and not joint basis which will be uplifted and terminated upon meeting all project completion requirements;
(ii) Cross-guarantee arrangement under an integrated borrowing structure due to the nature of the project with a related party; and
(iii) Charge over ordinary shares and the land lease rights of the said joint operation company.

The unsecured term loan in the previous year relates to a bridge loan facility of the said joint operation company amounting to USD1.0 billion. The bridge loan bore interest of LIBOR + 0.4% per annum and was fully repaid during the financial year.

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. DIVIDENDS

The Directors of the Company have declared a second interim single tier dividend of 7 sen per ordinary share, amounting to RM560 million in respect of the financial year ended 31 December 2019 (2018: 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).

The dividend is payable on 27 March 2020 to depositors registered in the Records of Depositors at the close of business on 13 March 2020.

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 13 March 2020 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.

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 31 December		Year ended 31 December	
	2019	**2018**	**2019**	**2018**
In RM Mil				
Profit for the period attributable to shareholders of the Company	**340**	1,010	**2,811**	4,788
In millions of shares				
Number of ordinary shares issued	**8,000**	8,000	**8,000**	8,000
In sen				
Basic earnings per share	**4**	13	**35**	60

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			Year ended	
USD/MYR	**31.12.2019**	**30.09.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Average rate	**4.1650**	4.1657	4.1721	**4.1423**	4.0347
Closing rate	**4.0995**	4.1870	4.1445	**4.0995**	4.1445

By order of the Board

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

Kuala Lumpur
26 February 2020

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 31 December 2018[1]

In RM Mil	As previously reported	Effect of change in accounting policy	As restated
Other income	152	27	179
Profit before taxation	1,477	27	1,504
Tax expense	(178)	(301)	(479)
PROFIT FOR THE PERIOD	1,299	(274)	1,025
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,247	(274)	973
Profit attributable to:			
Shareholders of the Company	1,285	(275)	1,010
Non-controlling interests	14	1	15
Total comprehensive income attributable to:			
Shareholders of the Company	1,233	(275)	958
Non-controlling interests	14	1	15
Basic earnings per ordinary share (sen)	16	(3)	13

b) Reconciliation of consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2018[1]

In RM Mil	As previously reported	Effect of change in accounting policy	As restated
Other income	397	106	503
Profit before taxation	5,650	106	5,756
Tax expense	(592)	(290)	(882)
PROFIT FOR THE PERIOD	5,058	(184)	4,874
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	5,260	(184)	5,076
Profit attributable to:			
Shareholders of the Company	4,979	(191)	4,788
Non-controlling interests	79	7	86
Total comprehensive income attributable to:			
Shareholders of the Company	5,182	(191)	4,991
Non-controlling interests	78	7	85
Basic earnings per ordinary share (sen)	62	(2)	60

[1] An extract of unaudited condensed consolidated statement 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 owners 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 Company	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 31 December 2018

In RM Mil	As previously reported	Effect of change in accounting policy	As restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation	5,650	106	5,756
Adjustments for:			
Other non-cash items	7	(106)	(99)
Other adjustments	1,373		1,373
Operating profit before changes in working capital	7,030	-	7,030
Changes in working capital	(224)	-	(224)
Cash generated from operations	6,806	-	6,806
Interest income received	304	-	304
Taxation paid	(443)	-	(443)
Net cash generated from operating activities	6,667	-	6,667
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	(1,883)	-	(1,883)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash generated from financing activities	876	-	876
Net cash flows from operating, investing and financing activities	5,660	-	5,660
Effect of foreign currency translation differences	(17)	-	(17)
Net increase in cash and cash equivalents	5,643	-	5,643
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 the end of period	12,329	-	12,329