PRESS METAL

PRESS METAL ALUMINIUM HOLDINGS BERHAD *(Company No.: 1198171-H)*
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NOTES TO THE QUARTERLY REPORT
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

A1. Basis of preparation

The condensed consolidated interim financial statements of the Group have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS) 134: Interim Financial Reporting, paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, International Financial Reporting Standards and the Companies Act 2016 in Malaysia.

Significant Accounting Policies

The accounting policies adopted in these condensed consolidated interim financial statements are consistent with those adopted for the financial year ended 31 December 2017, except for the adoption of the following Amendments and Annual Improvements to Standards which are effective for the annual periods beginning on or after 1 January 2018.

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investment in Associates and Joint Venture (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property - Transfer of Investment Property*

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board but have not been adopted by Group:

A1. Basis of preparation (continued)

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standard 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRS, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendment to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group plans to apply the abovementioned accounting standards, amendments and interpretations from the annual period beginning on 1 January 2019 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, except for Amendments to MFRS 11 which is not applicable to the Group. The Group does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Group.

NOTES TO THE QUARTERLY REPORT
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

A2. Auditors' report

The auditors' report of the audited financial statements for the financial year ended 31 December 2017 was not subject to any qualification.

A3. Seasonal or cyclical factors

The business of the Group was not affected by any significant seasonal or cyclical factors.

A4. Extraordinary and exceptional items

Insurance claim

As announced on 24 September 2018, the Group's 80% owned subsidiary, Press Metal Sarawak Sdn. Bhd. ("PMS") had achieved an amicable settlement of insurance claim amounting to RM60 million with the insurance company, Etiqa. Further details are set out in Note B10 of this report. Net income to the Group was RM33.03 million, after netting off incidental costs, tax and non-controlling interest.

Earn-out payment

With reference to the Company's circular to shareholders dated 11 February 2014 in relation to the acquisition by Summit Global Management XII B.V. ("SGM") of 20% equity interest in Press Metal Bintulu Sdn. Bhd. ("PMBintulu"), final adjustment had been made to the cash consideration and accordingly, the Group had paid USD6.37 million (about RM25.35 million) to SGM.

Save as above**,** there were no extraordinary and exceptional items affecting assets, liabilities, equity, net income or cash flow during the financial quarter under review.

NOTES TO THE QUARTERLY REPORT
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

A5. Changes in estimates

There were no changes in estimates during the financial quarter under review and financial period-to-date.

A6. Debt and equity securities

During the current financial period, the Company issued 110,829,249 new shares arising from the exercise of warrants.

There were no other debt and equity securities issued during the current financial period-to-date.

A7. Dividends paid

	Tax exempt (sen per share)	Total amount (RM'000)	Date of payment
Fourth interim 2017	1.5	57,991	03.04.2018
First interim 2018	1.5	58,031	19.06.2018
Second interim 2018	1.5	58,945	19.09.2018

A8. Segmental information

Segmental information is presented in respect of the Group's business segments.

The Group comprises the following main business segments:

(i) Smelting and extrusion

Manufacturing and marketing of aluminium and other related products.

(ii) Contracting and others

Contracting of aluminium and stainless steel products.

NOTES TO THE QUARTERLY REPORT
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

A8. Segmental information – *(cont'd)*

Business Segments

RM'000	**Smelting and extrusion**	**Contracting and others**	**Elimination**	**Total**
Revenue from external customers	6,896,095	42,048	-	6,938,143
Inter-segment revenue	1,230,597	61,852	(1,292,449)	-
Total revenue	**8,126,692**	**103,900**	**(1,292,449)**	**6,938,143**
Segment results	**823,450**	**(15,254)**		**808,196**
Share of associate's profit				2,004
Finance costs				(137,381)
Profit before tax				672,819
Taxation				(72,951)
Profit after tax				**599,868**

Geographical Segments

RM'000	Malaysia	Asia Region	Europe Region	American Region	Elimination	Total
Revenue from external customers	6,628,253	1,075,825	387,505	139,009	(1,292,449)	6,938,143
Segment assets by location	11,963,404	1,303,196	188,325	40,695	(5,433,524)	8,062,096
Investment in associate	46,241	32,440	-	-	-	78,681
	12,009,645	1,335,636	188,325	40,695	(5,433,524)	8,140,777

NOTES TO THE QUARTERLY REPORT
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

A9. Valuation of property, plant and equipment

There was no revaluation of property, plant and equipment brought forward from the previous audited financial statements, as the Group does not adopt a revaluation policy on its property, plant and equipment.

A10. Material events subsequent to the balance sheet date

There were no material event subsequent to the end of the financial period to the date of issue of this report.

A11. Changes in the composition of the Group

There were no significant changes in the composition of the Group for the current quarter under review.

A12. Contingent liabilities and contingent assets

There were no material changes in contingent liabilities and contingent assets as at the date of this quarterly report.

A13. Capital commitments

As at 30 September 2018, the Group has the following known commitments:

	RM'000
Authorised property, plant and equipment expenditures not provided for in the financial statements	40,000
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A14. Related party transactions

	9 months ended 30.09.2018
The Group	RM'000
With the affiliated companies – PMB Technology Berhad Group:-	
-Sales of aluminium products	160,034
-Purchase of fabricated aluminium products and building materials	21,928
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NOTES TO THE QUARTERLY REPORT
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

Disclosure requirements per Bursa Malaysia Securities Berhad's Listing Requirements – Part A of Appendix 9B

Review of performance

B1. Q3 2018 vs Q3 2017

The Group revenue increased from RM2.12 billion in Q3 2017 to RM2.37 billion in Q3 2018, representing an increase of RM257.00 million or 12.1%.

Higher revenue generated in Q3 2018 was mainly due to the completion of Leader Universal Aluminium Sdn. Bhd. ("LUA")'s acquisition on 30 March 2018 where LUA's revenue has been consolidated into the Group revenue. Higher revenue in the current year quarter was also due to the higher metal price as compared to Q3 2017.

Profit before tax ("PBT") increased by RM31.03 million or 14.8% to RM241.16 million in Q3 2018 as compared to Q3 2017.

The higher profit is partly aided by proceeds from insurance settlement. The financial performance would have been stronger if not because of the higher alumina prices and earn-out payment.

B2. Q3 2018 vs Q2 2018

Compared to the immediate preceding quarter, the Group PBT increased by RM19.74 million or 8.9% to RM241.16 million. The increase was mainly due to the net insurance claim received but partially off-set by the earn-out payment as mentioned in Note A4 above.

B3. Current year's prospects

External uncertainties remain due to the ongoing US and China trade tensions. The outlook remains challenging due to raw material supply disruptions arising from the on-going curtailment of alumina production in Brazil.

Our joint venture with Sunstone Development Co, Ltd in China for the manufacturing of pre-baked carbon anodes had just been commissioned and we expect the first delivery during the first quarter of 2019.

Further, we have entered into an asset sale agreement with ITOCHU Minerals & Energy of Australia Pty Ltd ("IMEA") and ITOCHU Corporation, the holding company of IMEA for the acquisition of 50% equity interest in Japan Alumina Associates (Australia) Pty. Ltd ("JAA") to partially secure our alumina supply. JAA is one of the most competitive alumina producers in the world.

For our smelter operations, we are close to our 50% target of value-added production and will further grow our value-added contribution to 60% by year 2019. This will further enhance our margin and strengthen our position directly with end users.

Barring any unforeseen circumstances, the Board expects the Group to achieve a satisfactory result for this financial year.

B4. Profit forecast

Not applicable as no profit forecast was published.

NOTES TO THE QUARTERLY REPORT
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

B5. Taxation

Taxation comprises the following:

	9 months ended 30.09.2018
	RM'000
Malaysian income tax	2,595
Foreign tax	19,553
Deferred tax	50,803
	72,951

The effective tax rate of the Group was lower than the prevailing statutory tax rate due to the tax incentives granted to its subsidiaries.

B6. Retained earnings

	As at 30.09.2018	**As at 31.12.2017**
	RM'000	***RM'000***
Retained earnings:		
Realised	2,321,253	2,005,641
Unrealised	(164,937)	(149,291)
	2,156,316	1,856,350
Total share of retained earnings of associate:		
Unrealised	(34,429)	(33,069)
Total Group retained earnings	2,121,887	1,823,281

B7. Status of Corporate Proposals Announced and Pending Completion

Sunstone Joint Venture

On 20 September 2016, the Group announced that it had entered into a joint venture agreement with Sunstone Development Co., Ltd, a company incorporated in China whereby the Group has agreed to participate in the establishment and operation of a new joint venture company, namely Shandong Sunstone & PMB Carbon Ltd., Co., in China for the primary purpose of manufacturing of pre-baked carbon anodes.

The Group has on 22 January 2018 injected RMB52.8 million (approximately RM32.4 million) being the investment cost for this joint venture and currently, the plant has begun commissioning its manufacturing operations.

JAA Joint Venture

The Group has on 17 October 2018 announced that Press Metal Bintulu Sdn. Bhd. (“PMBintulu”), an 80%-owned subsidiary of the Group has entered into an asset sale agreement (“ASA”) with ITOCHU Minerals & Energy of Australia Pty. Ltd. (“IMEA”) and ITOCHU Corporation (“ITOCHU”), the holding company of IMEA, for the acquisition of 50.00% of equity interest in Japan Alumina Associate (Australia) Pty. Ltd. (“JAA”) for a total cash purchase consideration of AUD250.0 million (equivalent to approximately RM739.0 million), subject to the terms and conditions as stipulated in the ASA (“Proposed Acquisition”).

The Proposed Acquisition is expected to complete in the first quarter of 2019.

Save as disclosed above**,** there are no other corporate proposals announced but pending completion during the financial quarter.

B8. Group borrowings and debt securities as at 30 September 2018

	Secured (RM'000)	Unsecured (RM'000)	Total (RM'000)
Long term	654,776	1,632,936	2,287,712
Short term	558,118	239,137	797,255
	1,212,894	1,872,073	3,084,967

Borrowings that are denominated in foreign currencies amounting to RM2,806 million are as follow: -

Currency		As at 30.09.2018 million
US Dollar	USD	585
Renminbi	RMB	515
Pound Sterling	GBP	14

B9. Derivative Financial Instruments

(a) Details of derivative financial instruments

Details of derivative financial instrument that are outstanding as at 30 September 2018 are as follows:

	Nominal value RM'000	Fair value assets/(liabilities) RM'000
Commodity swaps		
- Less than 1 year	5,251,198	(207,128)
- 1 year to 3 years	527,993	(25,476)
- More than 3 years	-	-
	5,779,191	(232,604)
Forward exchange contracts		
- Less than 1 year	1,959,164	35,349
- 1 year to 3 years	775,911	247
- More than 3 years	-	-
	2,735,075	35,596

The Group entered into commodity swaps to hedge its highly probable forecast physical alumimium delivery that are expected to occur at various dates in the future. The commodity swaps have maturity dates which match the expected occurrence of these transactions.

The Group entered into the forward exchange contracts to hedge its highly probable forecast transactions denominated in foreign currency expected to occur in the future. Such contracts have maturity dates that match the expected occurrence of these transactions.

These financial instruments are stated at fair value based on the financial institutions' quote.

B9. Derivative Financial Instruments *(cont'd)*

(a) Details of derivative financial instruments *(cont'd)*

All the derivatives were contracted with creditworthy financial institutions to mitigate the credit risk, market risk and liquidity risk associated with the derivatives.

There is no cash requirement for these derivatives other than the repayment obligation for the bank borrowings.

There have been no changes made to the accounting polices associated with those derivatives since the end of the previous financial year ended 31 December 2017.

(b) Fair value changes in financial liabilities

The gain/(loss) arising from fair value changes of financial liabilities for the current quarter and financial period-to-date are as follows: -

Type of financial liabilities	Basis of fair value measurement	Reason for gain/(loss)	Fair value gain/(loss)	
			Current quarter 30.09.2018 RM'000	Current period-to-date 30.09.2018 RM'000
Commodity swaps	Difference between the commodity swaps contracted price and the market forward price	Commodity price differential between the contracted price and market forward price which have moved in favour/(not in favour) of the Group	130,698	507,627
Forward exchange contracts	Difference between the contracted foreign exchange rates and the market forward rate	Foreign exchange rate differential between the contracted rate and the market forward rate which have moved in favour/(not in favour) of the Group	(33,678)	(126,800)
Total			97,020	380,827

B10. Material Litigation

The Company had on 17 February 2014 announced that the Company has not reached an acceptable agreement with its insurers on the claims arising from the power outage incident at PMS's smelting plant in Mukah, Sarawak and accordingly, has on the same date served to the lead insurer, a Writ of Summon and Statement of Claim filed vide Kuala Lumpur High Court ("Court") in respect of a suit commenced by PMS through its solicitors ("Suit").

For the financial year ended 2013, PMS has provided an estimated RM90 million for both operating losses and assets written off. No accrual of insurance claim has been made in the Group income statement for the financial year ended 31 December 2013.

On 12 June 2014, the Court allowed Etiqa's application for stay of proceeding for reference of the matter to Arbitration.

Subsequently, PMS filed an appeal to the Court of Appeal against the High Court's decision in allowing the said application for a stay of proceedings pending arbitration. The Court of Appeal dismissed PMS' appeal on 30 October 2014. Subsequently, PMS filed the motion for Leave to Appeal to the Federal Court on 28 November 2014. The Federal Court granted PMS Leave to Appeal on 26 March 2015. After hearing the Appeal, the Federal Court had on 15 August 2016 upheld the decision of the High Court and Court of Appeal which allowed Etiqa's application for stay of the court proceeding pending reference of the matter to arbitration.

PMS has on 24 November 2016 issued a Notice of Arbitration to Etiqa for commencement of the Arbitration and has on 20 January 2017 made a written request to the Director of Kuala Lumpur Regional Centre of Arbitration ("KLRCA") for registration and commencement of the Arbitration.

Therefore, PMS's claim against Etiqa is for, inter alia, an indemnity in respect of its losses and damages arising from the power outage incident at PMS's smelting plant in Mukah, Sarawak.

On 24 September 2018, PMS reached amicable settlement with Etiqa in respect of the insurance claim based on the settlement sum of RM60 million to be paid by Etiqa to PMS. A Consent Award issued by the Arbitral Tribunal recording the said settlement has been received by PMS on the same date.

B11. Dividend

The Board of Directors has approved a third interim single tier dividend of 2.0 sen per ordinary share, amounting approximately of RM78,927,000 for the financial year ending 31 December 2018.

The Book Closure and Payment Dates for the aforesaid dividend are 10 December 2018 and 27 December 2018 respectively.

B12. Earnings per ordinary share

(a) Basic earnings per share

	3rd Quarter 9 months ended		Period-to-date 9 months ended	
	30.09.18	**30.09.17**	**30.09.18**	**30.09.17**
Profit attributable to shareholders (RM'000)	162,493	154,383	473,573	452,600
Weighted average number of ordinary shares ('000)	3,901,312	3,732,582	3,876,711	3,724,747
Basic earnings per share (sen)	4.17	4.14	12.22	12.15
	========	========	========	========

B12. Earnings per ordinary share-*cont'd*

(b) Diluted earnings per share

	3rd Quarter 3 months ended		Period-to-date 9 months ended	
	30.09.18	**30.09.17**	**30.09.18**	**30.09.17**
Profit attributable to shareholders (RM'000)	162,493	154,383	473,573	452,600
Weighted average number of ordinary shares ('000)	3,901,312	3,732,582	3,876,711	3,724,747
Warrants C ('000)	87,015	260,214	87,419	253,613
	3,988,327	3,992,796	3,964,130	3,978,360
Diluted earnings per share (sen)	4.07	3.87	11.95	11.38

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B13. Note to the Condensed Consolidated Income Statement

Profit before tax is arrived at after charging/(crediting) the following items:

	Current Quarter RM'000	Current Financial Period-To-Date RM'000
Interest income	(2,472)	(5,061)
Other income including investment income	-	-
Interest expense	49,137	142,442
Depreciation and amortisation	98,159	296,054
Provision for and write off of trade receivables	422	422
Provision for and write off of inventories	-	-
(Gain) or loss on disposal of quoted or unquoted investment or properties	(1,254)	(524)
Impairment of assets	-	-
Realised foreign exchange (gain)/loss	(18,473)	(84,161)
Unrealised foreign exchange (gain)/loss	(7,043)	(1,831)
(Gain) or loss on derivatives	18,644	102,419
Property, plant and equipment written off	3,664	14,027
Exceptional item:-		
- Gross insurance claim	(60,000)	(60,000)
- Earn-out payment	25,347	25,347

B14. Comparative figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements.

On behalf of the Board

Tan Sri Dato' Koon Poh Keong
Group Chief Executive Officer
22 November 2018