PETRONAS CHEMICALS GROUP BERHAD

Quarterly Report

For First Quarter Ended 31 March 2018

PETRONAS CHEMICALS GROUP BERHAD (459830-K)

QUARTERLY REPORT

FOR FIRST QUARTER ENDED 31 MARCH 2018

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 31 March 2018 which should be read in conjunction with the accompanying explanatory notes on pages 6 to 18.

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

		Individual quarter ended 31 March	
In RM Mil	**Note**	**2018**	**2017**
Revenue		**4,951**	4,695
Cost of revenue		**(3,100)**	(2,742)
Gross profit		**1,851**	1,953
Selling and distribution expenses		**(204)**	(184)
Administration expenses		**(208)**	(177)
Other expenses		**(179)**	(12)
Other income		**63**	59
Operating profit	**B4**	**1,323**	1,639
Net financing costs	**B5**	**(4)**	(6)
Share of profit of equity-accounted joint ventures and associates, net of tax		**17**	3
Profit before taxation		**1,336**	1,636
Tax expense	**B6**	**(229)**	(255)
PROFIT FOR THE PERIOD		**1,107**	1,381
Other comprehensive expenses			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		**(94)**	(152)
Share of other comprehensive expenses of equity-accounted joint ventures and associates		**(46)**	(15)
Total other comprehensive expenses for the period		**(140)**	(167)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**967**	1,214
Profit attributable to:			
Shareholders of the Company		**1,065**	1,295
Non-controlling interests		**42**	86
PROFIT FOR THE PERIOD		**1,107**	1,381
Total comprehensive income attributable to:			
Shareholders of the Company		**925**	1,128
Non-controlling interests		**42**	86
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**967**	1,214
Basic earnings per share attributable to shareholders of the Company:			
Based on ordinary shares issued (sen)	**B14**	**13**	16

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 31.03.2018	As at 31.12.2017
ASSETS			
Property, plant and equipment		17,745	20,792
Prepaid lease payments		33	42
Investments in associates and joint ventures		1,139	1,192
Intangible assets		-	1
Long term receivables		106	113
Deferred tax assets		284	300
TOTAL NON-CURRENT ASSETS		19,307	22,440
Trade and other inventories		1,597	1,723
Trade and other receivables	B8	2,406	2,370
Tax recoverable		45	55
Cash and cash equivalents		10,237	6,674
TOTAL CURRENT ASSETS		14,285	10,822
TOTAL ASSETS		33,592	33,262
EQUITY			
Share capital		8,871	8,871
Reserves		18,471	18,994
Total equity attributable to shareholders of the Company		27,342	27,865
Non-controlling interests		659	1,003
TOTAL EQUITY		28,001	28,868
LIABILITIES			
Deferred tax liabilities		842	838
Other long term liabilities and provisions		201	212
TOTAL NON-CURRENT LIABILITIES		1,043	1,050
Borrowings	B9	1,931	-
Trade and other payables		2,430	3,217
Current tax payables		187	127
TOTAL CURRENT LIABILITIES		4,548	3,344
TOTAL LIABILITIES		5,591	4,394
TOTAL EQUITY AND LIABILITIES		33,592	33,262
Net assets per share attributable to the shareholders of the Company (RM)		3.42	3.48

The unaudited condensed consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company				
	Non-distributable				
In RM Mil	**Share Capital**	**Share Premium**	**Foreign Currency Translation Reserve**	**Merger Reserve**	**Other Reserves**
Individual quarter ended 31 March 2018					
At 1 January 2018	8,871	-	(244)	(204)	461
Foreign currency translation differences	-	-	(94)	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(46)
Total other comprehensive expenses for the period	-	-	(94)	-	(46)
Profit for the period	-	-	-	-	-
Total comprehensive expenses for the period	-	-	(94)	-	(46)
Additional equity interest in subsidiaries	-	-	-	-	-
Dividends to shareholders of the Company	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	-
Balance at 31 March 2018	8,871	-	(338)	(204)	415
Individual quarter ended 31 March 2017					
At 1 January 2017	800	8,071	1,077	(204)	550
Foreign currency translation differences	-	-	(152)	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(15)
Total other comprehensive expenses for the period	-	-	(152)	-	(15)
Profit for the period	-	-	-	-	-
Total comprehensive expenses for the period	-	-	(152)	-	(15)
Redemption of Redeemable Preference Shares in a subsidiary	-	-	-	-	14
Dividends to shareholders of the Company	-	-	-	-	-
Dividends to non-controlling interests	-	-	-	-	-
Transfer in accordance with Section 618(2) of the Companies Act 2016 to no-par value regime on 31 January 2017 [Note a]	8,071	(8,071)	-	-	-
Total transactions with shareholders	8,071	(8,071)	-	-	14
Balance at 31 March 2017	8,871	-	925	(204)	549

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Note a: Pursuant to Section 74 of the Companies Act 2016 ('the Act'), the Company's shares no longer have a par or nominal value with effect from 31 January 2017. In accordance with Section 618 of the Act, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has twenty-four months upon the commencement of the Act to utilise the credit.

There is no impact on the number of shares in issue or the relative entitlement of any of the Members as a result of this transition. During the financial period, the Company has not utilised any of the credit in the share premium account which are now part of the share capital.

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to shareholders of the Company			
	Distributable			
In RM Mil	**Retained Profits**	**Total**	**Non-controlling Interests**	**Total Equity**
Individual quarter ended 31 March 2018				
At 1 January 2018	18,981	27,865	1,003	28,868
Foreign currency translation differences	-	(94)	-	(94)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(46)	-	(46)
Total other comprehensive expenses for the period	-	(140)	-	(140)
Profit for the period	1,065	1,065	42	1,107
Total comprehensive income for the period	1,065	925	42	967
Additional equity interest in subsidiaries	(248)	(248)	(386)	(634)
Dividends to shareholders of the Company	(1,200)	(1,200)	-	(1,200)
Total transactions with shareholders	(1,448)	(1,448)	(386)	(1,834)
Balance at 31 March 2018	18,598	27,342	659	28,001
Individual quarter ended 31 March 2017				
At 1 January 2017	16,748	27,042	1,271	28,313
Foreign currency translation differences	-	(152)	-	(152)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(15)	-	(15)
Total other comprehensive expenses for the period	-	(167)	-	(167)
Profit for the period	1,295	1,295	86	1,381
Total comprehensive expenses for the period	1,295	1,128	86	1,214
Redemption of Redeemable Preference Shares in a subsidiary	(14)	-	-	-
Dividends to shareholders of the Company	(960)	(960)	-	(960)
Dividends to non-controlling interests	-	-	(66)	(66)
Transfer in accordance with Section 618(2) of the Companies Act 2016 to no-par value regime on 31 January 2017	-	-	-	-
Total transactions with shareholders	(974)	(960)	(66)	(1,026)
Balance at 31 March 2017	17,069	27,210	1,291	28,501

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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	Individual quarter ended 31 March 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**1,336**	1,636
Adjustments for:		
- Depreciation and amortisation	**411**	349
- Finance costs	**4**	6
- Interest income	**(46)**	(48)
- Loss on partial divestment of a subsidiary	**153**	-
- Share of profit after tax and non-controlling interests of equity-accounted joint ventures and associates	**(17)**	(3)
- Other non-cash items	**(26)**	16
Operating profit before changes in working capital	**1,815**	1,956
Change in trade and other inventories	**(104)**	(154)
Change in trade and other receivables	**129**	(320)
Change in trade and other payables	**(115)**	(13)
Cash generated from operations	**1,725**	1,469
Interest income from fund and other investments	**41**	53
Taxation paid	**(139)**	(163)
Net cash generated from operating activities	**1,627**	1,359
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from equity-accounted joint ventures and associates	**25**	-
Proceeds from sales of property, plant and equipment	**2**	-
Purchase of property, plant and equipment	**(1,061)**	(627)
Proceeds from partial divestment of equity and shareholder loans in a subsidiary, net of cash divested	**969**	-
Net cash used in investing activities	**(65)**	(627)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to:		
- PETRONAS	**(772)**	(618)
- others (third parties)	**(428)**	(342)
- non-controlling interests	**-**	(108)
Repayment of:		
- finance lease liabilities	**(14)**	(14)
- revolving credit	**-**	(23)
Drawdown of term loan	**3,886**	-
Payment for additional equity interest in subsidiaries	**(630)**	-
Net cash generated from/(used in) financing activities	**2,042**	(1,105)
Net cash flows from operating, investing and financing activities	**3,604**	(373)
Effect of foreign currency translation differences	**(11)**	2
Net increase/(decrease) in cash and cash equivalents	**3,593**	(371)
Net foreign exchange differences on cash held	**(30)**	(17)
Cash and cash equivalents at beginning of the period	**6,674**	7,403
Cash and cash equivalents at end of the period	**10,237**	7,015

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. BASIS OF PREPARATION

The condensed financial statements are unaudited and have been prepared in accordance with IAS 34, MFRS 134, Interim Financial Reporting and paragraph 9.22 of Bursa Malaysia Securities Berhad's Main Market Listing Requirements. They should also be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017. The explanatory notes attached to the condensed financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2017.

Within the context of these unaudited condensed consolidated financial statements, the Group comprises the Company and its subsidiaries, and the Group's interest in joint ventures and associates as at and for the quarter ended 31 March 2018.

A2. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the same accounting policies and methods of computation are followed in the condensed consolidated financial statements as compared with the consolidated financial statements for 31 December 2017.

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

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

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

(i) MFRS 9 *Financial Instruments*

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

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

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

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

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

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

A2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) MFRS 15 *Revenue from Contracts with Customers*

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

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

A3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The audited financial statements of PCG and its subsidiaries for the year ended 31 December 2017 were not subject to any audit qualification.

A4. SEASONALITY OR CYCLICALITY OF OPERATIONS

The prices of petrochemical products and their underlying feedstock are subject to significant fluctuations as they are influenced both by global supply and demand as well as movements in the prices of key commodities such as crude oil and natural gas. Consequently, margins have historically been cyclical and are sensitive to supply and demand imbalances both domestically and internationally. Supply is affected by significant capacity expansions by producers, and if such additions are not matched by corresponding growth in demand, which is generally linked to the level of economic activity, average industry operating margins will face downward pressures. As a result, the petrochemical cycle is characterised by years of tight supply, leading to high capacity utilisation rates and margins, followed by years of oversupply, primarily resulting from significant capacity additions, leading to reduced capacity utilisation rates and margins.

A5. EXCEPTIONAL ITEMS

There was no exceptional item during the period under review.

A6. MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates of the amounts reported in the most recent annual financial statements of PCG and its subsidiaries for the year ended 31 December 2017 that may have a material effect in the results of the period under review.

A7. DEBT AND EQUITY SECURITIES

There were no material issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the quarter under review, other than as disclosed in note B9.

A8. DIVIDEND PAID

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

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

A9. OPERATING SEGMENTS

- Olefins and Derivatives – activities include manufacturing and marketing of a wide range of olefins, intermediate, basic and high performance chemicals, and polymer products.

- Fertilisers and Methanol – activities include manufacturing and marketing of methanol and a range of nitrogen, phosphate and compound fertilisers.

- Others – other non-reportable segments comprise operations related to investment holding company and port services which provide product distribution infrastructure to the Group.

9.1 Revenue

					Individual quarter ended 31 March	
	2018	2017	2018	2017	2018	2017
In RM Mil	Third Parties		Inter-segment		Gross Total	
Olefins and Derivatives	**3,151**	3,218	**4**	4	**3,155**	3,222
Fertilisers and Methanol	**1,787**	1,465	**44**	42	**1,831**	1,507
Others	**13**	12	**12**	10	**25**	22
Total	**4,951**	4,695	**60**	56	**5,011**	4,751

9.2 Segment Profit for the Period[1]

	Individual quarter ended 31 March	
In RM Mil	2018	2017
Olefins and Derivatives	**719**	933
Fertilisers and Methanol	**564**	451
Others	**(176)**	(3)
Total	**1,107**	1,381

A10. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

There were no revaluations of property, plant and equipment for the period under review. As at 31 March 2018, all property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

A11. SIGNIFICANT EVENTS

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

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

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

[1] Included within profit for the period for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM204 million (2017: RM211 million), RM202 million (2017: RM132 million) and RM5 million (2017: RM5 million) respectively.

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

A12. CONTINGENCIES

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

A13. CHANGES IN COMPOSITION OF THE GROUP

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

A14. CAPITAL COMMITMENTS

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

In RM Mil	**As at 31.03.2018**	**As at 31.12.2017**
Property, plant and equipment:		
Approved and contracted for	**2,187**	3,695
Approved but not contracted for	**1,346**	3,257
	3,533	6,952

Included in the above are amount of RM2.8 billion (2017: RM6.2 billion) relating to the petrochemicals projects within the Pengerang Integrated Complex (PIC) in Pengerang, Johor.

A15. FAIR VALUE INFORMATION

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

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

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

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

Forward foreign exchange contracts

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

Finance lease liabilities

The fair values of finance lease liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

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

A15. FAIR VALUE INFORMATION (continued)

The following table analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

As at 31 March 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	-	24	-	24	1,956
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(18)	-	(18)	(1,487)

Fair value of financial instruments not carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Carrying amount	Total fair value
Financial liabilities					
Finance lease liabilities	-	-	(77)	(77)	(76)

As at 31 December 2017
Fair value of financial instruments carried at fair value

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

Fair value of financial instruments not carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Carrying amount	Total fair value
Financial liabilities					
Finance lease liabilities	-	-	(88)	(88)	(88)

PART B – OTHER EXPLANATORY NOTES

B1. REVIEW OF GROUP PERFORMANCE

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

Individual quarter ended 31 March

In RM Mil	2018	2017	2018	2017	2018	2017
	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**4,951**	4,695	**3,155**	3,222	**1,831**	1,507
Profit after tax	**1,107**	1,381	**719**	933	**564**	451
EBITDA[2]	**1,840**	1,940	**1,106**	1,334	**779**	622

PCG Group achieved plant utilisation of 100%, as compared to 99% in the corresponding quarter supported by better plant performance. There were higher production and sales volumes in the current quarter mainly from urea production from PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd. (PCFSSB) (formerly referred to as Project SAMUR) which commenced commercial operation in May 2017.

Overall average product prices strengthened from the corresponding quarter following the increase in crude oil price.

Revenue increased by RM256 million or 5% to RM5.0 billion primarily driven by higher sales volumes and product prices, partially offset by the strengthening of Ringgit Malaysia against US Dollar.

EBITDA decreased by RM100 million or 5% to RM1.8 billion as the increase in sales volumes and product prices were offset by the strengthening of Ringgit Malaysia against US Dollar and a once-off adjustment relating to under accrual of manpower-related expenses in the previous periods. Profit after tax was also lower by RM274 million or 20% to RM1.1 billion in line with lower EBITDA, coupled with the impact of foreign exchange loss on its shareholder loans pursuant to the divestment of 50% equity interest in a subsidiary.

Olefins and Derivatives

The segment attained strong plant utilisation at 100% in the current and corresponding quarters. Accordingly, production and sales volumes remained comparable for both quarters.

Average product prices for the segment improved by approximately 10% in tandem with strengthening crude oil prices.

Despite higher product prices and comparable sales volumes, revenue decreased marginally by RM67 million or 2% to RM3.2 billion due to the strengthening of Ringgit Malaysia against US Dollar by 52 sen or 12%.

EBITDA was lower by RM228 million or 17% at RM1.1 billion and profit after tax was lower by RM214 million or 23% at RM719 million due to the strengthening of Ringgit Malaysia against US Dollar as well as a once-off adjustment relating to under accrual of manpower-related expenses in the previous periods.

[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 recorded stronger operational performance with plant utilisation of 100% compared to 96% in the corresponding quarter resulting in higher production and sales volumes, mainly attributable to commencement of PCFSSB's commercial operation in May 2017.

Average product prices across all products strengthened due to higher crude oil prices and limited global supply.

The segment recorded higher revenue by RM324 million or 21% at RM1.8 billion largely due to increase in sales volumes and prices, partially offset by the strengthening of Ringgit Malaysia against US Dollar.

EBITDA increased by RM157 million or 25% to RM779 million in line with higher revenue. Profit after tax also increased by RM113 million or 25% to RM564 million in line with higher EBITDA, partially offset by additional depreciation from the commencement of commercial operation at PCFSSB.

(b) Variation of results against the preceding quarter

In RM Mil	**31 March 2018**	**31 December 2017**
Revenue	**4,951**	4,740
Profit after tax	**1,107**	1,049
EBITDA[3]	**1,840**	1,727

The Group's plant utilisation improved to 100% from 93% in the preceding quarter, mainly contributed by lower level of statutory turnaround activities. Accordingly, the Group achieved higher production and sales volumes.

Overall average product prices improved following stronger crude oil price.

In line with higher sales volumes and product prices, revenue increased by RM211 million or 4% to RM5.0 billion, partially negated by the strengthening of Ringgit Malaysia against US Dollar.

The Group's EBITDA was higher by RM113 million or 7% at RM1.8 billion compared to the preceding quarter on the back of higher revenue. Profit after tax increased by RM58 million or 6% to RM1.1 billion in line with higher EBITDA and lower tax expense, partially offset by the impact of foreign exchange loss on its shareholder loans pursuant to the divestment of 50% equity interest in a subsidiary.

[3] EBITDA refers to earnings before interest, taxation, depreciation and amortisation, share of profit of equity accounted joint ventures and associates and other significant non-cash items.

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

(c) Highlight on consolidated statement of financial position

In RM Mil	As at 31.03.2018	As at 31.12.2017
Total assets	**33,592**	33,262
Total equity	**28,001**	28,868
ROE (%)	**14.8**	14.5

The Group's total assets increased by RM330 million or 1% to RM33.6 billion as at 31 March 2018 as compared to RM33.3 billion as at 31 December 2017. This was primarily due to the increase in cash received from term loan drawdown, divestment of 50% equity interest and shareholder loans in a subsidiary as well as profit generated during the quarter. However, the increase was partially negated by reduction in property, plant and equipment upon the abovementioned divestment, dividend payment to shareholders in the current quarter and payment for the acquisition of a non-controlling interest in certain subsidiaries.

Total equity was lower by RM867 million or 3% at RM28.0 billion, due to the dividend payment and acquisition of shares held by a non-controlling interest in certain subsidiaries, partially offset by profit generated during the quarter.

(d) Highlight on consolidated statement of cash flows

	Individual quarter ended 31 March	
In RM Mil	2018	2017
Net cash generated from operating activities	**1,627**	1,359
Net cash used in investing activities	**(65)**	(627)
Net cash generated from/(used in) financing activities	**2,042**	(1,105)

Net cash generated from operating activities increased by RM268 million or 20% to RM1.6 billion, supported by improved debtors turnover.

Net cash used in investing activities was lower by RM562 million or 90% at RM61 million primarily contributed by proceeds from divestment of 50% equity interest in a subsidiary, partially negated by higher capital expenditure in petrochemicals projects within PIC.

The Group generated net cash from financing activities of RM2.0 billion as compared to net cash used in the corresponding quarter of RM1.1 billion due to term loan drawdown by a subsidiary, partially offset by the acquisition of shares held by a non-controlling interest in certain subsidiaries.

PART B – OTHER EXPLANATORY NOTES (continued)

B2. COMMENTARY ON PROSPECTS

The results of the Group's operations are expected to be primarily influenced by global economic conditions, foreign exchange rate movement, utilisation rate of our production facilities and petrochemical products prices which have a high correlation to crude oil prices, particularly for the Olefins and Derivatives segment.

The utilisation of our production facilities is dependent on plant maintenance activities and sufficient availability of feedstock as well as utilities supply. The Group will continue with its operational excellence programme and supplier relationship management to sustain plant utilisation level at above industry benchmark.

Olefins and Derivatives

The Group foresees the olefins and derivatives market to be stable in the near term, drawing support from ample supply availability, on the back of healthy downstream demand and firm feedstock prices.

Fertilisers and Methanol

The Group expects the fertiliser segment to soften due to end of purchasing season for key markets and high inventory level in South East Asia (SEA). Methanol prices are also forecasted to soften in the near term owing to lackluster downstream demand from derivatives and methanol-to-olefins (MTO), compounded by sufficient supply within SEA and North East Asia (NEA).

B3. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable as the Group does not publish any profit forecast.

B4. OPERATING PROFIT

	Individual quarter ended	
		31 March
In RM Mil	**2018**	**2017**
Included in operating profit are the following charges:		
Depreciation and amortisation	411	349
Net loss on foreign exchange	12	7
Inventories written down to net realisable value	-	6
Loss on partial divestment of a subsidiary	153	-
and credits:		
Interest income	46	48

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

PART B – OTHER EXPLANATORY NOTES (continued)

B4. OPERATING PROFIT (continued)

Foreign exchange exposure / hedging policy

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

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

B5. NET FINANCING COSTS

	Individual quarter ended 31 March	
In RM Mil	**2018**	**2017**
Unwinding of discount factor for other long term liabilities and provisions	4	6

B6. TAX EXPENSE

	Individual quarter ended 31 March	
In RM Mil	**2018**	**2017**
Current tax expenses		
Current period tax	207	220
Under provision in respect of prior periods	2	1
	209	221
Deferred tax expenses		
Origination and reversal of temporary differences	20	38
Over provision in respect of prior periods	-	(4)
	20	34
	229	255

The Group's effective tax rates for the quarter ended 31 March 2018 and 2017 are 17% and 16% respectively, which is reflective of the various tax jurisdictions within which the Group operates, including among others Income Tax Act 1967 and Global Incentive for Trading (GIFT) under Labuan Financial Services and Securities Act 2010.

B7. STATUS OF CORPORATE PROPOSALS

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

PART B – OTHER EXPLANATORY NOTES (continued)

B8. TRADE AND OTHER RECEIVABLES

(a) Details of Group trade and other receivables

In RM Mil	As at 31.03.2018	As at 31.12.2017
Trade receivables:		
- Third party	**1,610**	1,539
- Joint ventures and associates	**256**	261
- Related companies	**75**	99
Other receivables	**465**	471
	2,406	2,370

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

(b) Ageing analysis of trade receivables

In RM Mil	As at 31.03.2018	As at 31.12.2017
Current	**1,930**	1,884
Past due 1 to 30 days	**11**	15
	1,941	1,899

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

B9. BORROWINGS

(a) Details of Group borrowings

	In USD Mil		*In RM Mil*	
	As at 31.03.2018	As at 31.12.2017	As at 31.03.2018	As at 31.12.2017
Current				
Term loan - unsecured	**500**	-	**1,931**	-

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

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

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

PART B – OTHER EXPLANATORY NOTES (continued)

B9. BORROWINGS (continued)

(b) Reconciliation of liabilities arising from financing activities

		Cash flows	*Non-cash changes*		
	As at 01.01.2018	Drawdown	Partial divestment of a subsidiary	Foreign exchange movement	As at 31.03.2018
In RM Mil					
Term loan - unsecured	-	3,886	(1,931)	(24)	1,931

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

B10. DERIVATIVE FINANCIAL INSTRUMENTS

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

B11. FAIR VALUE CHANGES OF FINANCIAL LIABILITIES

The Group does not have any financial liabilities that are measured at fair value (other than derivative financial instruments) for the quarter ended 31 March 2018.

B12. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 31 March 2018.

B13. MATERIAL LITIGATION

There is no pending material litigation since the last audited financial statements of PCG and its subsidiaries for the year ended 31 December 2017.

B14. BASIC EARNINGS PER SHARE

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

	Individual quarter ended 31 March	
	2018	2017
In RM Mil		
Profit for the period attributable to shareholders of the Company	1,065	1,295
In millions of shares		
Number of ordinary shares issued	8,000	8,000
In sen		
Basic earnings per share	13	16

As at the date of the statement of financial position, the Company does not have any instruments which may have a dilutive impact on the basic earnings per share.

PART B – OTHER EXPLANATORY NOTES (continued)

B15. EXCHANGE RATES

	Individual quarter ended		
USD/MYR	**31.03.2018**	**31.12.2017**	**31.03.2017**
Average rate	**3.9248**	4.3002	4.4472
Closing rate	**3.8620**	4.0595	4.4240

By order of the Board

Noor Lily Zuriati Binti Abdullah (LS0010101)
Kang Shew Meng (MAICSA 0778565)
Joint Secretaries

Kuala Lumpur
21 May 2018