PETRONAS

PETRONAS CHEMICALS GROUP BERHAD

Quarterly Report

For Third Quarter Ended 30 September 2017

PETRONAS CHEMICALS GROUP BERHAD (459830-K)

QUARTERLY REPORT

FOR THIRD QUARTER ENDED 30 SEPTEMBER 2017

The Board of Directors of PETRONAS Chemicals Group Berhad ("PCG" or the "Company") is pleased to announce the following unaudited condensed consolidated financial statements for the quarter ended 30 September 2017 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 30 September		Cumulative quarter ended 30 September	
In RM Mil	Note	2017	2016	2017	2016
Revenue		4,013	3,564	12,667	9,913
Cost of revenue		(2,670)	(2,140)	(7,938)	(6,178)
Gross profit		1,343	1,424	4,729	3,735
Selling and distribution expenses		(190)	(175)	(563)	(508)
Administration expenses		(138)	(141)	(452)	(438)
Other expenses		(5)	(18)	(22)	(189)
Other income		55	119	178	243
Operating profit	B5	1,065	1,209	3,870	2,843
Net financing (costs)/income	B6	(5)	24	(15)	56
Share of profit of equity-accounted joint ventures and associates, net of tax		56	25	59	38
Profit before taxation		1,116	1,258	3,914	2,937
Tax expense	B7	(155)	(273)	(549)	(748)
PROFIT FOR THE PERIOD		961	985	3,365	2,189
Other comprehensive (expenses)/income					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		(175)	111	(712)	(117)
Share of other comprehensive (expenses)/ income of equity-accounted joint ventures and associates		(19)	37	(69)	(46)
Total other comprehensive (expenses)/ income for the period		(194)	148	(781)	(163)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		767	1,133	2,584	2,026
Profit attributable to:					
Shareholders of the Company		913	891	3,172	1,945
Non-controlling interests		48	94	193	244
PROFIT FOR THE PERIOD		961	985	3,365	2,189
Total comprehensive income attributable to:					
Shareholders of the Company		719	1,039	2,391	1,782
Non-controlling interests		48	94	193	244
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		767	1,133	2,584	2,026
Basic earnings per share attributable to shareholders of the Company:					
Based on ordinary shares issued (sen)	B17	11	11	40	24

The unaudited condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RM Mil	Note	As at 30.09.2017	As at 31.12.2016
ASSETS			
Property, plant and equipment		20,040	18,543
Prepaid lease payments		45	-
Investments in associates and joint ventures		1,332	1,363
Intangible assets		1	3
Long term receivables		37	83
Deferred tax assets		431	462
TOTAL NON-CURRENT ASSETS		21,886	20,454
Trade and other inventories		1,620	1,383
Trade and other receivables		2,084	2,639
Tax recoverable		28	69
Cash and cash equivalents		6,518	7,403
TOTAL CURRENT ASSETS		10,250	11,494
TOTAL ASSETS		32,136	31,948
EQUITY			
Share capital		8,871	800
Reserves		18,642	26,242
Total equity attributable to shareholders of the Company		27,513	27,042
Non-controlling interests		1,138	1,271
TOTAL EQUITY		28,651	28,313
LIABILITIES			
Deferred tax liabilities		875	874
Other long term liabilities and provisions		247	308
TOTAL NON-CURRENT LIABILITIES		1,122	1,182
Borrowings	B11	-	23
Trade and other payables		2,200	2,208
Current tax payables		163	180
Dividend payables		-	42
TOTAL CURRENT LIABILITIES		2,363	2,453
TOTAL LIABILITIES		3,485	3,635
TOTAL EQUITY AND LIABILITIES		32,136	31,948

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company				
	Non-distributable				
In RM Mil	**Share Capital**	**Share Premium**	**Foreign Currency Translation Reserve**	**Merger Reserve**	**Other Reserves**
Cumulative quarter ended 30 September 2016					
At 1 January 2016	800	8,071	436	(204)	487
Foreign currency translation differences	-	-	(117)	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(46)
Total other comprehensive expenses for the period	-	-	(117)	-	(46)
Profit for the period	-	-	-	-	-
Total comprehensive expenses for the period	-	-	(117)	-	(46)
Redemption of Redeemable Preference Shares in a subsidiary	-	-	-	-	13
Dividends to shareholders of the Company	-	-	-	-	-
Dividends to non-controlling interests	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	13
Balance at 30 September 2016	800	8,071	319	(204)	454
Cumulative quarter ended 30 September 2017					
At 1 January 2017	800	8,071	1,077	(204)	550
Foreign currency translation differences	-	-	(712)	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(69)
Total other comprehensive expenses for the period	-	-	(712)	-	(69)
Profit for the period	-	-	-	-	-
Total comprehensive expenses for the period	-	-	(712)	-	(69)
Redemption of Redeemable Preference Shares in a subsidiary	-	-	-	-	24
Dividends to shareholders of the Company	-	-	-	-	-
Dividends to non-controlling interests	-	-	-	-	-
Transition in accordance with section 618(2) of the Companies Act 2016 to no-par value regime on 31 January 2017 [Note a]	8,071	(8,071)	-	-	-
Total transactions with shareholders	8,071	(8,071)	-	-	24
Balance at 30 September 2017	8,871	-	365	(204)	505

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Note a: Pursuant to section 74 of the Companies Act, 2016 ('the Act'), the Company's shares no longer have a par or nominal value with effect from 31 January 2017. In accordance with the transitional provision set out in section 618 of the Act, any amount standing to the credit of the share premium account becomes part of the Company's share capital. Companies have 24 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 share capital.

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

In RM Mil	*Attributable to shareholders of the Company* — *Distributable* Retained Profits	Total	Non-controlling Interests	Total Equity
Cumulative quarter ended 30 September 2016				
At 1 January 2016	15,193	24,783	1,807	26,590
Foreign currency translation differences	-	(117)	-	(117)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(46)	-	(46)
Total other comprehensive expenses for the period	-	(163)	-	(163)
Profit for the period	1,945	1,945	244	2,189
Total comprehensive expenses for the period	1,945	1,782	244	2,026
Redemption of Redeemable Preference Shares in a subsidiary	(13)	-	(11)	(11)
Dividends to shareholders of the Company	(1,360)	(1,360)	-	(1,360)
Dividends to non-controlling interests	-	-	(530)	(530)
Total transactions with shareholders	(1,373)	(1,360)	(541)	(1,901)
Balance at 30 September 2016	15,765	25,205	1,510	26,715
Cumulative quarter ended 30 September 2017				
At 1 January 2017	16,748	27,042	1,271	28,313
Foreign currency translation differences	-	(712)	-	(712)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(69)	-	(69)
Total other comprehensive expenses for the period	-	(781)	-	(781)
Profit for the period	3,172	3,172	193	3,365
Total comprehensive expenses for the period	3,172	2,391	193	2,584
Redemption of Redeemable Preference Shares in a subsidiary	(24)	-	-	-
Dividends to shareholders of the Company	(1,920)	(1,920)	-	(1,920)
Dividends to non-controlling interests	-	-	(326)	(326)
Transition in accordance with section 618(2) of the Companies Act 2016 to no-par value regime on 31 January 2017	-	-	-	-
Total transactions with shareholders	(1,944)	(1,920)	(326)	(2,246)
Balance at 30 September 2017	17,976	27,513	1,138	28,651

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS Note b

	Cumulative quarter ended 30 September	
In RM Mil	**2017**	**2016**
Profit before tax	**3,914**	2,937
Adjustments for:		
Depreciation and amortisation	**1,166**	993
Finance costs/(income)	**15**	(56)
Interest income	**(143)**	(195)
Share of profit equity-accounted joint ventures and associates	**(59)**	(38)
Other non-cash items	**21**	138
Operating profit before changes in working capital	**4,914**	3,779
Change in trade and other receivables	**563**	(115)
Change in trade inventories	**(239)**	96
Change in trade and other payables	**(766)**	(384)
Cash generated from operations	**4,472**	3,376
Interest income from fund and other investments	**130**	203
Taxation paid	**(370)**	(535)
Net cash generated from operating activities	**4,232**	3,044
Dividends received from equity-accounted joint ventures and associates	**45**	38
Increase in investment in an associate	**(24)**	(34)
Proceeds from sales of property, plant and equipment	**1**	1
Purchase of property, plant and equipment	**(2,730)**	(2,200)
Withdrawal of Islamic deposits	**-**	622
Net cash used in investing activities	**(2,708)**	(1,573)
Dividends paid to:		
- PETRONAS	**(1,236)**	(875)
- others (third parties)	**(684)**	(485)
- non-controlling interests of subsidiaries	**(368)**	(530)
Drawdown of revolving credit	**-**	8
Payment to non-controlling interests on redemption of shares	**-**	(11)
Repayment of:		
- finance lease liabilities	**(41)**	(41)
- revolving credit	**(23)**	(15)
Net cash used in financing activities	**(2,352)**	(1,949)
Net cash flows from operating, investing and financing activities	**(828)**	(478)
Effects of foreign currency translation differences	**16**	2
Net decrease in cash and cash equivalents	**(812)**	(476)
Net foreign exchange differences on cash held	**(73)**	(23)
Cash and cash equivalents at beginning of the period	**7,403**	8,707
Cash and cash equivalents at end of the period	**6,518**	8,208

Note b: As of 1 January 2017, the Group has changed the presentation format of the Statement of Cash Flows from direct method to indirect method so as to provide better information to the users of its financial statements.

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 financial statements of the Group for the year ended 31 December 2016 and the accompanying notes attached to the unaudited condensed consolidated financial statements.

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 30 September 2017.

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 2016.

As of 1 January 2017, the Group has adopted the following MFRSs and amendments (collectively referred to as "pronouncements") which are effective for annual years beginning on or after 1 January 2017.

Effective for annual periods beginning on or after 1 January 2017

Amendments to MFRS 12	*Disclosure of Interests in Other Entities (Annual Improvements 2014 – 2016 Cycle)*
Amendments to MFRS 107	*Statement of Cash Flows: Disclosure Initiative*
Amendments to MFRS 112	*Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

A3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The audited financial statements of PCG and its subsidiaries for the year ended 31 December 2016 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 quarter 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 2016 that may have a material effect in the results of the quarter under review.

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

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.

A8. DIVIDEND PAID

During the period under review, the Company paid:

(i) A second interim single tier dividend of 12 sen per ordinary share, amounting to RM960 million in respect of the financial year ended 31 December 2016 to shareholders on 7 March 2017.

(ii) A first interim single tier dividend of 12 sen per ordinary share, amounting to RM960 million in respect of the financial year ended 31 December 2017 to shareholders on 8 September 2017.

A9. OPERATING SEGMENTS

- Olefins and Derivatives – activities include manufacturing and marketing of a wide range of olefins, intermediate, basic and high performance chemicals, and polymer products.
- Fertilisers and Methanol – activities include manufacturing and marketing of methanol and a range of nitrogen, phosphate and compound fertilisers.
- Others – other non-reportable segments comprise operations related to investment holding company and port services which provide product distribution infrastructure to the Group.

9.1 Revenue

	Cumulative quarter ended 30 September					
	2017	2016	2017	2016	2017	2016
In RM Mil	Third Parties		Inter-segment		Gross Total	
Olefins and Derivatives	8,384	6,918	9	9	8,393	6,927
Fertilisers and Methanol	4,251	2,954	104	127	4,355	3,081
Others	32	41	31	34	63	75
Total	12,667	9,913	144	170	12,811	10,083

9.2 Segment Profit for the Period[1]

	Cumulative quarter ended 30 September	
In RM Mil	2017	2016
Olefins and Derivatives	2,134	1,453
Fertilisers and Methanol	1,218	668
Others	13	68
Total	3,365	2,189

[1] Included within profit for the period for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM615 million (2016: RM592 million), RM535 million (2016: RM328 million) and RM16 million (2016: RM12 million) respectively.

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

A10. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

There were no revaluations of property, plant and equipment for the period under review. As at 30 September 2017, all property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

A11. SIGNIFICANT EVENT

On 29 September 2017, PCG entered into a Share Purchase Agreement (SPA) with Aramco Overseas Holding Coöperatief U.A. (AOHC), a wholly owned subsidiary of Saudi Arabian Oil Company (Saudi Aramco), in relation to the divestment of 50% of the equity interest and 50% of any shareholder loans held by PCG in PRPC Polymers Sdn Bhd for a total consideration of approximately USD0.9 billion (equivalent to RM3.8 billion), subject to certain post-closing adjustments set out in the SPA.

The divestment is expected to be completed by 15 March 2018, subject to the fulfilment of all conditions to closing. Upon completion of the divestment, PRPC Polymers will cease to be a subsidiary of PCG.

Further details of the divestment is as stated in a separate Bursa Announcement issued on 2 October 2017.

A12. CONTINGENCIES

There were no material contingent liabilities or contingent assets since the last consolidated statement of financial position as at 31 December 2016.

A13. CHANGES IN COMPOSITION OF THE GROUP

There was no material change in the composition of the Group.

A14. CAPITAL COMMITMENTS

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

In RM Mil	**As at 30.9.2017**	**As at 31.12.2016**
Property, plant and equipment:		
Approved and contracted for	**3,880**	6,216
Approved but not contracted for	**4,257**	4,719
	8,137	10,935

Included in the above are amounts of RM7,706 million (2016: RM9,302 million) relating to the petrochemicals projects within the Pengerang Integrated Complex (PIC) in Pengerang, Johor.

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

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.

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.

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

As at 30 September 2017
Fair value of financial instruments carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Total
Financial assets				
Forward foreign exchange contracts	-	8	-	8
Financial liabilities				
Forward foreign exchange contracts	-	(10)	-	(10)

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					
Financial lease liabilities	-	-	(100)	(100)	(100)

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

A15. FAIR VALUE INFORMATION (continued)

As at 31 December 2016
Fair value of financial instruments carried at fair value

In RM Mil	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Forward foreign exchange contracts	-	15	-	15
Financial liabilities				
Forward foreign exchange contracts	-	(17)	-	(17)

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					
Financial lease liabilities	-	-	(136)	(137)	(136)

PART B – OTHER EXPLANATORY NOTES

B1. REVIEW OF GROUP PERFORMANCE

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

	Individual quarter ended 30 September					
	2017	2016	2017	2016	2017	2016
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**4,013**	3,564	**2,633**	2,542	**1,403**	1,054
Profit	**961**	985	**586**	680	**369**	257
EBITDA[2]	**1,431**	1,457	**852**	1,062	**600**	394

Plant utilisation for the Group was at 86% against 100% in the corresponding quarter mainly due to statutory turnaround activities undertaken during the current quarter. Despite lower plant utilisation, production and sales volumes increased against corresponding quarter mainly contributed by SAMUR plant which commenced commercial operation in May 2017.

Overall average product prices improved in tandem with higher crude oil price.

Group's revenue increased by RM449 million or 13% to RM4.0 billion primarily driven by higher prices and strengthening US Dollar as well as higher sales volumes.

However, EBITDA marginally declined by RM26 million or 2% to RM1.4 billion mainly due to higher operating expenditure relating to activities undertaken during the statutory turnarounds. Similarly, profit after tax decreased slightly by RM24 million or 2% at RM1.0 billion in line with lower EBITDA.

Olefins and Derivatives

The segment recorded plant utilisation of 82% as compared to 100% in the corresponding quarter as a result of statutory turnaround activities undertaken at its derivatives plant. In the same quarter in 2016, there was no statutory turnaround activities. Production and sales volumes decreased accordingly.

Average product prices continued to strengthen attributable to the recovery of crude oil prices.

Despite lower volumes, revenue increased by RM91 million or 4% to RM2.6 billion following higher prices coupled with stronger US Dollar.

Nevertheless, EBITDA decreased to RM852 million by RM210 million or 20% mainly due to higher operating expenditure relating to activities undertaken during the statutory turnaround. Correspondingly, profit after tax was lower by RM94 million or 14% at RM586 million.

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

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

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

Fertilisers and Methanol

The segment recorded a lower plant utilisation of 88%, a decline from 96% as compared to the corresponding quarter mainly due to statutory turnaround activities at its ammonia plant. However, production and sales volumes were higher primarily contributed by SAMUR plant which commenced commercial operation in May 2017.

Average product prices strengthened as methanol prices improved partially offset by the impact of weakened ammonia prices as a result of oversupply situation.

The segment recorded revenue of RM1.4 billion, an increase of RM349 million or 33% on the back of higher prices and volumes, supported by stronger US Dollar.

Correspondingly, EBITDA and profit after tax improved by RM206 million or 52% and RM112 million or 44% to RM600 million and RM369 million respectively.

b) Performance of the current period against the corresponding period

					Cumulative quarter ended 30 September	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
In RM Mil	**Group**		**Olefins and Derivatives**		**Fertilisers and Methanol**	
Revenue	**12,667**	9,913	**8,393**	6,927	**4,355**	3,081
Profit after tax	**3,365**	2,189	**2,134**	1,453	**1,218**	668
EBITDA[3]	**4,891**	3,807	**3,135**	2,737	**1,798**	1,105

Operationally, Group recorded a lower plant utilisation of 91% as compared to 96% in the corresponding period, primarily driven by higher statutory turnaround activities undertaken during the current period. Nonetheless, Group production and sales volumes increased with the commencement of commercial operation at the SAMUR plant in May 2017.

Average product prices continued to improve following the ascending trend of crude oil price.

Group's revenue increased by RM2.8 billion or 28% to RM12.7 billion, mainly contributed by higher product prices and volumes, as well as the strengthening of US Dollar.

Similarly, Group EBITDA for the period was at RM4.9 billion, an increase of RM1.1 billion or 29% and profit after tax was at RM3.4 billion, an increase of RM1.2 billion or 54%.

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

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

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

Olefins and Derivatives

Plant utilisation for the segment was at 92%, a decrease from 99% in the corresponding period as a result of higher statutory turnaround activities at its derivatives and MTBE plants in the current period as compared to at PDH and aromatics plants in the corresponding period. Production volumes declined in line with the lower plant utilisation whilst sales volumes remained comparable with inventory drawdown.

Average product prices strengthened in tandem with the rising crude oil price.

Revenue increased by RM1.5 billion or 21% to RM8.4 billion primarily driven by higher prices and stronger US Dollar.

Consequently, EBITDA was also higher by RM398 million or 15% at RM3.1 billion. Profit after tax improved from RM1.5 billion to RM2.1 billion mainly contributed by higher spread in line with the improvement in market prices and the corresponding period included asset write-off amounting to RM241 million in relation to the cancellation of elastomers project.

Fertilisers and Methanol

The segment plant utilisation was at 90% compared to 94% in the corresponding period mainly due to statutory turnaround activities undertaken at its ammonia plant. Nevertheless, the segment recorded higher production and sales volumes following the commencement of SAMUR plant’s commercial operation in May 2017.

Overall average product prices strengthened mainly for methanol following improved demand. However, ammonia and urea prices weakened given oversupply situation in the market.

Subsequently, the higher volumes, improved prices and stronger US Dollar contributed to revenue of RM4.4 billion, higher than the corresponding quarter by RM1.3 billion or 41%.

As a result, the segment recorded EBITDA of RM1.8 billion and profit after tax of RM1.2 billion, an increase of RM693 million or 63% and RM550 million or 82% respectively.

PART B – OTHER EXPLANATORY NOTES (continued)

B2. VARIATION OF RESULTS AGAINST THE PRECEDING QUARTER

In RM Mil	30 September 2017	30 June 2017
Revenue	**4,013**	3,959
Profit	**961**	1,023
EBITDA[4]	**1,431**	1,521

Group's plant utilisation was at 86% compared to 90% in the preceding quarter as a result of higher level of statutory turnaround activities. Correspondingly, production and sales volumes were lower in line with lower plant utilisation.

Overall average product prices for the quarter improved by 4% attributable to the recovery of crude oil price.

Group's revenue remained stable at RM4.0 billion primarily driven by higher product prices partially offset by the impact of weaker US Dollar and lower volumes.

EBITDA declined by RM90 million or 6% to RM1.4 billion and profit after tax decreased by RM62 million or 6% to RM1.0 billion mainly due to higher operating expenditure relating to activities undertaken during the statutory turnarounds.

B3. COMMENTARY ON PROSPECTS

The results of the Group's operations are expected to be primarily influenced by global economic conditions, 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 higher feedstock prices, partially negated by seasonal low demand in China.

Fertilisers and Methanol

The fertiliser segment is expected to be firm supported by demand from the agriculture sector and the unavailability of supply from the Middle East. Methanol prices are expected to stabilise owing to regional supply shortage alongside stable downstream demand.

[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)

B4. PROFIT FORECAST OR PROFIT GUARANTEE

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

B5. OPERATING PROFIT

	Individual quarter ended 30 September		Cumulative quarter ended 30 September	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Included in operating profit are the following charges:				
Depreciation and amortisation	414	335	1,166	993
Loss on foreign exchange:				
- Realised	1	14	2	-
- Unrealised	-	-	9	-
Loss on disposal of property, plant and equipment	4	-	10	4
Property, plant and equipment written-off	-	-	-	241
and credits:				
Interest income	47	61	143	195
Other income	8	4	35	9
Gain on foreign exchange:				
- Realised	-	-	-	4
- Unrealised	-	54	-	35
Reversal of provisions for plant decommissioning and onerous contracts	-	-	-	56

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

B6. NET FINANCING COSTS/(INCOME)

	Individual quarter ended 30 September		Cumulative quarter ended 30 September	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Unwinding of discount factor for other long term liabilities and provisions	5	3	14	9
Unrealised loss/(gain) on forward exchange contract	-	106	-	(219)
Unrealised (gain)/loss on foreign exchange	-	(133)	-	154
	5	(24)	14	(56)

In the corresponding period, unrealised loss on forward exchange contract arose from forward exchange contracts entered in relation to loan due from a subsidiary.

PART B – OTHER EXPLANATORY NOTES (continued)

B7. TAX EXPENSE

In RM Mil	Individual quarter ended 30 September 2017	2016	Cumulative quarter ended 30 September 2017	2016
Current tax expenses				
Current period tax	**130**	251	**528**	743
Over provision in respect of prior periods	**(2)**	(12)	**(1)**	(14)
	128	239	**527**	729
Deferred tax expenses				
Origination and reversal of temporary differences	**13**	28	**52**	14
Under/(Over) provision in respect of prior periods	**14**	6	**(35)**	5
	27	34	**22**	19
	155	273	**549**	748

The Group's effective tax rates for the period ended 30 September 2017 and 2016 are 14% and 26% respectively as compared to the corporate income tax rate of 24%. The lower effective tax rate for the period ended 30 September 2017 is mainly due to higher proportion of profits taxed at a lower rate under Global Incentive for Trading (GIFT). The higher effective tax rate in the corresponding period was mainly due to the write-off on assets relating to the cancellation of elastomers project, which was non-deductible for tax purposes as well as effect of deferred tax assets not recognised at certain subsidiaries.

B8. SALES OF UNQUOTED INVESTMENTS/PROPERTIES

There were no material disposals of unquoted investments or properties by the Group for the period under review.

B9. QUOTED SECURITIES

There were no material dealings in quoted securities during the period under review.

B10. STATUS OF CORPORATE PROPOSALS

There was no new corporate proposal during the period under review since the last audited financial statements of 31 December 2016.

B11. BORROWINGS

The details of the Group borrowings are as follows:

In RM Mil	As at 30.9.2017	As at 31.12.2016
Revolving credits - unsecured	**-**	23

B12. DERIVATIVE FINANCIAL INSTRUMENTS

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

B13. FAIR VALUE CHANGES OF FINANCIAL LIABILITIES

The Group does not have any financial liabilities that are measured at fair value (other than derivative financial instruments) for the quarter ended 30 September 2017.

PART B – OTHER EXPLANATORY NOTES (continued)

B14. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

This information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia.

The Group's balance of realised and unrealised retained profits disclosed as follows:

In RM Mil	As at 30.9.2017	As at 31.12.2016
Total retained profits of the Group		
Realised	21,237	20,774
Unrealised	(536)	(492)
	20,701	20,282
Total share retained profits from associates and joint ventures		
Realised	169	155
Unrealised	(23)	(26)
	146	129
Total realised and unrealised	20,847	20,411
Less: Consolidation adjustments	(2,871)	(3,663)
Total group retained profits as per consolidated account	17,976	16,748

B15. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 30 September 2017.

B16. 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 2016.

B17. BASIC EARNINGS PER SHARE

In RM Mil	Individual quarter ended 30 September 2017	2016	Cumulative quarter ended 30 September 2017	2016
Profit for the period attributable to shareholders of the Company	913	891	3,172	1,945
Earnings per share attributable to shareholders of the Company:				
In millions of shares				
Number of ordinary shares issued	8,000	8,000	8,000	8,000
Basic earnings per share (sen)	11	11	40	24

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)

B18. EXCHANGE RATES

	Individual quarter ended			Cumulative quarter ended		
USD/MYR	**30.9.2017**	**30.6.2017**	**30.9.2016**	**30.9.2017**	**31.12.2016**	**30.9.2016**
Average rate	**4.2616**	4.3329	4.0510	**4.3472**	4.1459	4.0875
Closing rate	**4.2265**	4.2950	4.1465	**4.2265**	4.4845	4.1465

By order of the Board

Noor Lily Zuriati Binti Abdullah (LS0009795)
Kang Shew Meng (MAICSA 0778565)
Joint Secretaries

Kuala Lumpur
9 November 2017