PETRONAS CHEMICALS GROUP BERHAD

Quarterly Report

For Fourth Quarter and Year Ended 31 December 2017

PETRONAS CHEMICALS GROUP BERHAD (459830-K)

QUARTERLY REPORT

FOR FOURTH QUARTER AND YEAR ENDED 31 DECEMBER 2017

PETRONAS

The Board of Directors of PETRONAS Chemicals Group Berhad ("PCG" or the "Company") is pleased to announce the following unaudited condensed consolidated financial statements for the quarter and year ended 31 December 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

In RM Mil	Note	Individual quarter ended 31 December 2017	2016	Year ended 31 December 2017	2016
Revenue		**4,740**	3,947	**17,407**	13,860
Cost of revenue		**(3,083)**	(2,358)	**(11,021)**	(8,536)
Gross profit		**1,657**	1,589	**6,386**	5,324
Selling and distribution expenses		**(201)**	(196)	**(764)**	(704)
Administration expenses		**(163)**	(229)	**(615)**	(667)
Other expenses		**3**	(42)	**(9)**	(196)
Other income		**74**	81	**242**	289
Operating profit	B5	**1,370**	1,203	**5,240**	4,046
Net financing (costs)/income	B6	**(5)**	(9)	**(20)**	47
Share of (loss)/profit of equity-accounted joint ventures and associates, net of tax		**(43)**	(21)	**16**	17
Profit before taxation		**1,322**	1,173	**5,236**	4,110
Tax expense	B7	**(273)**	(140)	**(822)**	(888)
PROFIT FOR THE PERIOD		**1,049**	1,033	**4,414**	3,222
Other comprehensive (expenses)/income					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences	A5	**(609)**	758	**(1,321)**	641
Share of other comprehensive (expenses)/ income of equity-accounted joint ventures and associates		**(44)**	92	**(113)**	46
Total other comprehensive (expenses)/ income for the period		**(653)**	850	**(1,434)**	687
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**396**	1,883	**2,980**	3,909
Profit attributable to:					
Shareholders of the Company		**1,005**	987	**4,177**	2,932
Non-controlling interests		**44**	46	**237**	290
PROFIT FOR THE PERIOD		**1,049**	1,033	**4,414**	3,222
Total comprehensive income attributable to:					
Shareholders of the Company		**352**	1,837	**2,743**	3,619
Non-controlling interests		**44**	46	**237**	290
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**396**	1,883	**2,980**	3,909
Basic earnings per share attributable to shareholders of the Company:					
Based on ordinary shares issued (sen)	B17	**13**	12	**52**	37

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RM Mil	Note	As at 31.12.2017	As at 31.12.2016
ASSETS			
Property, plant and equipment		20,792	18,543
Prepaid lease payments		42	-
Investments in associates and joint ventures		1,192	1,363
Intangible assets		1	3
Long term receivables		113	83
Deferred tax assets		300	462
TOTAL NON-CURRENT ASSETS		22,440	20,454
Trade and other inventories		1,723	1,383
Trade and other receivables		2,370	2,639
Tax recoverable		55	69
Cash and cash equivalents		6,674	7,403
TOTAL CURRENT ASSETS		10,822	11,494
TOTAL ASSETS		33,262	31,948
EQUITY			
Share capital		8,871	800
Reserves		18,994	26,242
Total equity attributable to shareholders of the Company		27,865	27,042
Non-controlling interests		1,003	1,271
TOTAL EQUITY		28,868	28,313
LIABILITIES			
Deferred tax liabilities		838	874
Other long term liabilities and provisions		212	308
TOTAL NON-CURRENT LIABILITIES		1,050	1,182
Borrowings	B11	-	23
Trade and other payables		3,217	2,208
Current tax payables		127	180
Dividend payables		-	42
TOTAL CURRENT LIABILITIES		3,344	2,453
TOTAL LIABILITIES		4,394	3,635
TOTAL EQUITY AND LIABILITIES		33,262	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**
Year ended 31 December 2017					
At 1 January 2017	800	8,071	1,077	(204)	550
Foreign currency translation differences	-	-	(1,321)	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(113)
Total other comprehensive expenses for the year	-	-	(1,321)	-	(113)
Profit for the year	-	-	-	-	-
Total comprehensive expenses for the year	-	-	(1,321)	-	(113)
Redemption of Redeemable Preference Shares in a subsidiary	-	-	-	-	24
Additional shares issued to non-controlling interests	-	-	-	-	-
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 31 December 2017	8,871	-	(244)	(204)	461
Year ended 31 December 2016					
At 1 January 2016	800	8,071	436	(204)	487
Foreign currency translation differences	-	-	641	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	46
Total other comprehensive income for the year	-	-	641	-	46
Profit for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	641	-	46
Redemption of Redeemable Preference Shares in a subsidiary	-	-	-	-	17
Dividends to shareholders of the Company	-	-	-	-	-
Dividends to non-controlling interests	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	17
Balance at 31 December 2016	800	8,071	1,077	(204)	550

continue to next page

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**
Year ended 31 December 2017				
At 1 January 2017	16,748	27,042	1,271	28,313
Foreign currency translation differences	-	(1,321)	-	(1,321)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(113)	-	(113)
Total other comprehensive expenses for the year	-	(1,434)	-	(1,434)
Profit for the year	4,177	4,177	237	4,414
Total comprehensive income for the year	4,177	2,743	237	2,980
Redemption of Redeemable Preference Shares in a subsidiary	(24)	-	-	-
Additional shares issued to non-controlling interests	-	-	7	7
Dividends to shareholders of the Company	(1,920)	(1,920)	-	(1,920)
Dividends to non-controlling interests	-	-	(512)	(512)
Transition in accordance with section 618(2) of the Companies Act 2016 to no-par value regime on 31 January 2017 [Note a]	-	-	-	-
Total transactions with shareholders	(1,944)	(1,920)	(505)	(2,425)
Balance at 31 December 2017	18,981	27,865	1,003	28,868
Year ended 31 December 2016				
At 1 January 2016	15,193	24,783	1,807	26,590
Foreign currency translation differences	-	641	-	641
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	46	-	46
Total other comprehensive income for the year	-	687	-	687
Profit for the year	2,932	2,932	290	3,222
Total comprehensive income for the year	2,932	3,619	290	3,909
Redemption of Redeemable Preference Shares in a subsidiary	(17)	-	(11)	(11)
Dividends to shareholders of the Company	(1,360)	(1,360)	-	(1,360)
Dividends to non-controlling interests	-	-	(815)	(815)
Total transactions with shareholders	(1,377)	(1,360)	(826)	(2,186)
Balance at 31 December 2016	16,748	27,042	1,271	28,313

continued from previous page

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 CASH FLOWS Note b

In RM Mil	2017	Year ended 31 December 2016
Profit before tax	**5,236**	4,110
Adjustments for:		
- Depreciation and amortisation	**1,589**	1,337
- Finance costs/(income)	**20**	(47)
- Interest income	**(211)**	(261)
- Share of profit of equity-accounted joint ventures and associates	**(16)**	(17)
- Other non-cash items	**22**	176
Operating profit before changes in working capital	**6,640**	5,298
Change in trade and other receivables	**203**	(615)
Change in trade and other inventories	**(359)**	39
Change in trade and other payables	**(751)**	(225)
Cash generated from operations	**5,733**	4,497
Interest income from fund and other investments	**195**	260
Taxation paid	**(617)**	(799)
Net cash generated from operating activities	**5,311**	3,958
Dividends received from equity-accounted joint ventures and associates	**98**	64
Investment in an associate	**(24)**	(84)
Proceeds from sales of property, plant and equipment	**2**	2
Purchase of property, plant and equipment	**(3,446)**	(3,428)
Withdrawal of Islamic deposits	**-**	622
Net cash used in investing activities	**(3,370)**	(2,824)
Dividends paid to:		
- PETRONAS	**(1,236)**	(875)
- others (third parties)	**(684)**	(485)
- non-controlling interests of subsidiaries	**(554)**	(773)
Drawdown of revolving credit	**-**	8
Payment to non-controlling interests on redemption of shares	**-**	(11)
Proceeds from shares issued to a non-controlling interest	**7**	-
Repayment of:		
- finance lease liabilities	**(55)**	(55)
- revolving credit	**(23)**	(16)
Payment for settlement of forward foreign exchange contract	**-**	(4,366)
Proceeds from settlement of forward foreign exchange contract	**-**	3,811
Net cash used in financing activities	**(2,545)**	(2,762)
Net cash flows from operating, investing and financing activities	**(604)**	(1,628)
Effects of foreign currency translation differences	**(5)**	294
Net decrease in cash and cash equivalents	**(609)**	(1,334)
Net foreign exchange differences on cash held	**(120)**	30
Cash and cash equivalents at beginning of the year	**7,403**	8,707
Cash and cash equivalents at end of the year	**6,674**	7,403

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 relevant 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 and year ended 31 December 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 AND MATERIAL ITEMS

There was no exceptional item during the quarter and year under review.

The material foreign currency translation loss during the quarter and year ended, arising from the effect of translation of certain foreign currency net assets, was due to the strengthening of Ringgit Malaysia against US Dollar.

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 and the year 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 and year under review.

A8. DIVIDEND PAID

During the year 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 21 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

						Year ended 31 December
	2017	2016	2017	2016	2017	2016
In RM Mil	Third Parties		Inter-segment		Gross Total	
Olefins and Derivatives	**11,350**	9,744	**12**	13	**11,362**	9,757
Fertilisers and Methanol	**6,013**	4,063	**155**	165	**6,168**	4,228
Others	**44**	53	**41**	45	**85**	98
Total	**17,407**	13,860	**208**	223	**17,615**	14,083

9.2 Segment Profit for the Year[1]

	Year ended 31 December	
In RM Mil	2017	2016
Olefins and Derivatives	**2,771**	2,159
Fertilisers and Methanol	**1,609**	999
Others	**34**	64
Total	**4,414**	3,222

[1] Included within profit for the year for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM817 million (2016: RM804 million), RM750 million (2016: RM459 million) and RM22 million (2016: RM19 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 31 December 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 upon fulfilment of all conditions precedent of the SPA. Subsequent to the 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. SUBSEQUENT EVENT

On 8 February 2018, PCG via its subsidiary, PRPC Polymers Sdn. Bhd., has entered into a Land Lease Agreement with PETRONAS Hartabina Sdn. Bhd., a wholly-owned subsidiary of Petroliam Nasional Berhad for a lease period of 30 years.

Further details of the agreement is as stated in a separate Bursa Announcement issued on 8 February 2018.

A13. CONTINGENCIES

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

A14. CHANGES IN COMPOSITION OF THE GROUP

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

A15. CAPITAL COMMITMENTS

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

In RM Mil	**As at 31.12.2017**	**As at 31.12.2016**
Property, plant and equipment:		
Approved and contracted for	**3,695**	6,216
Approved but not contracted for	**3,257**	4,719
	6,952	10,935

Included in the above are amounts of RM6,176 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)

A16. 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 31 December 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	-	19	-	19
Financial liabilities				
Forward foreign exchange contracts	-	(15)	-	(15)

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	-	-	(88)	(88)	(88)

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

A16. 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 31 December					
	2017	2016	2017	2016	2017	2016
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**4,740**	3,947	**2,969**	2,831	**1,813**	1,147
Profit after tax	**1,049**	1,033	**637**	706	**391**	331
EBITDA[2]	**1,727**	1,484	**963**	1,068	**774**	425

The Group's plant utilisation was at 93%, slightly lower than 96% in the corresponding quarter following higher level of statutory turnaround and maintenance activities undertaken during the current quarter. However, the Group achieved higher production and sales volumes mainly contributed by SAMUR which commenced commercial operation in May 2017.

Overall average product prices improved in line with firmer crude oil price.

The Group's revenue increased by RM793 million or 20% to RM4.7 billion mainly due to strengthening prices, further supported by higher sales volumes, partially offset by weakening US Dollar.

Subsequently, EBITDA was higher by RM243 million or 16% at RM1.7 billion. Profit after tax had also improved slightly by RM16 million or 2% to RM1.0 billion in line with higher EBITDA, partially offset by higher tax expense arising from recognition of deferred tax liabilities and higher depreciation at SAMUR.

Olefins and Derivatives

Plant utilisation for the segment was marginally lower by 2% from 100% in the corresponding quarter to 98% in the current quarter, primarily due to higher level of maintenance activities. As a result of lower plant utilisation, production and sales volumes had declined.

The segment's average product prices were firmer compared to the corresponding quarter in tandem with strengthening crude oil prices.

Despite lower sales volume, revenue increased by RM138 million or 5% to RM3.0 billion on the back of improving product prices.

However, EBITDA decreased to RM963 million by RM105 million or 10% mainly due to lower proportion of ethane based products following maintenance activities at its derivatives plant. Similarly, profit after tax declined to RM637 million by RM69 million or 10%.

[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 attained comparable plant utilisation of 90% against 89% in the corresponding quarter with higher production and sales volumes contributed by commencement of SAMUR commercial operation in May 2017. Excluding SAMUR, plant utilisation was at 84% mainly due to statutory turnaround activity at its methanol plant.

Average product prices strengthened across all products in the segment amidst tighter supply globally.

Revenue increased by RM666 million or 58% to RM1.8 billion following higher sales volumes and prices.

As a result of higher revenue, EBITDA improved by RM349 million or 82% to RM774 million. Profit after tax was also higher by RM60 million or 18% at RM391 million following higher EBITDA, partially offset by higher tax expense arising from recognition of deferred tax liabilities and higher depreciation at SAMUR.

b) Performance of the current year against the corresponding year

						Year ended 31 December
	2017	2016	2017	2016	2017	2016
In RM Mil		Group	Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**17,407**	13,860	**11,362**	9,757	**6,168**	4,228
Profit after tax	**4,414**	3,222	**2,771**	2,159	**1,609**	999
EBITDA[3]	**6,618**	5,291	**4,098**	3,805	**2,572**	1,530

The Group's plant utilisation was lower at 91% compared to 96% in the corresponding year mainly due to higher statutory turnaround activities undertaken during the current year. Despite lower plant utilisation, production and sales volumes were higher following commencement of commercial operation at SAMUR in May 2017.

Overall average product prices was stronger in line with the increasing crude oil price.

The Group recorded higher revenue of RM17.4 billion, increased by RM3.5 billion or 26% from the corresponding year on the back of improved product prices and higher sales volumes, as well as the impact of strengthening US Dollar.

EBITDA also increased by RM1.3 billion or 25% to RM6.6 billion and profit after tax increased by RM1.2 billion or 37% to RM4.4 billion, in line with higher revenue.

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

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

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

Olefins and Derivatives

The segment recorded a lower plant utilisation of 94% against 100% in the corresponding year primarily due to higher statutory turnaround activities at its derivatives and MTBE plants in the current year as compared to at aromatics and PDH plants in the corresponding year. Consequently, production and sales volumes had declined.

With the recovery of crude oil price, average product prices for the segment also improved.

Despite lower sales volumes, the segment recorded higher revenue at RM11.4 billion, increased by RM1.6 billion or 16% largely attributable to strengthening prices and stronger US Dollar.

Correspondingly, EBITDA increased to RM4.1 billion by RM293 million or 8%. Profit after tax also improved by RM612 million or 28% to RM2.8 billion as the corresponding year included asset write-off amounting to RM244 million in relation to the cancellation of elastomers project.

Fertilisers and Methanol

Plant utilisation was lower at 90% as compared to 93% in the corresponding year mainly due to higher level of statutory turnaround activities undertaken at its methanol and ammonia plants compared to at urea plant in the corresponding year. However, production and sales volumes were higher following the commencement of SAMUR's commercial operation in May 2017.

Average product prices strengthened for all products as a result of tight supply situation in the market.

Revenue increased from the corresponding year by RM1.9 billion or 46% at RM6.2 billion in tandem with improved prices and higher sales volumes, further supported by stronger US Dollar.

Subsequently, EBITDA rose by RM1.0 billion or 68% to RM2.6 billion in the year. Profit after tax also improved by RM610 million or 61% to RM1.6 billion following higher EBITDA, partially offset by higher depreciation and higher tax expense arising from recognition of deferred tax liabilities at SAMUR.

PART B – OTHER EXPLANATORY NOTES (continued)

B2. VARIATION OF RESULTS AGAINST THE PRECEDING QUARTER

In RM Mil	31 December 2017	30 September 2017
Revenue	**4,740**	4,013
Profit after tax	**1,049**	961
EBITDA[4]	**1,727**	1,431

The Group recorded plant utilisation of 93%, improved from 86% in the preceding quarter mainly due to lower level of statutory turnaround activities. Production and sales volumes increased mainly contributed by better operational performance.

Overall average product prices strengthened as crude oil price improved in the quarter.

Correspondingly, the Group's revenue increased by RM727 million or 18% to RM4.7 billion on the back of improved product prices and higher sales volumes, partially offset by the impact of weaker US Dollar.

EBITDA increased by RM296 million or 21% to RM1.7 billion. Profit after tax was also higher by RM88 million or 9% at RM1.0 billion in line with higher EBITDA, partially offset by higher tax expense arising from recognition of deferred tax liabilities at SAMUR.

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 strengthen in the near term, drawing support from limited supply due to regional turnarounds, supported by healthy demand for upcoming festive season and higher feedstock prices.

Fertilisers and Methanol

The Group expects the fertiliser segment to be firm as a result of limited supply in the Middle East and supported by return of demand in Asia. Methanol prices are also forecast to strengthen owing to healthy downstream demand and tight supply in China.

[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

In RM Mil	Individual quarter ended 31 December 2017	2016	Year ended 31 December 2017	2016
Included in operating profit are the following charges:				
Depreciation and amortisation	423	349	1,589	1,337
Net loss on foreign exchange	-	37	1	2
Inventories:				
- written down to net realisable value	13	2	13	2
- written off	6	-	6	-
Loss on disposal of property, plant and equipment	1	-	11	4
Property, plant and equipment written-off	-	3	-	244
Impairment losses on property, plant and equipment	-	5	-	5
and credits:				
Interest income	68	66	211	261
Other income	(6)	3	29	12
Net gain on foreign exchange	13	13	3	17
Gain on disposal of property, plant and equipment	2	-	2	-

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

Foreign exchange exposure / hedging policy

The Group is exposed to varying levels of foreign exchange risk when entering into transactions that are not denominated in the respective companies' functional currencies and when foreign currency monetary assets and liabilities are translated 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 are to minimise economic and significant transactional exposures 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, hedges using derivative instruments in respect of current and forecasted transactions.

PART B – OTHER EXPLANATORY NOTES (continued)

B6. NET FINANCING COSTS/(INCOME)

In RM Mil	Individual quarter ended 31 December 2017	2016	Year ended 31 December 2017	2016
Unwinding of discount factor for other long term liabilities and provisions	5	12	20	21
Net realised loss/(gain) on forward foreign exchange contract	-	58	-	(160)
Realised foreign exchange (gain)/loss on loan to a subsidiary	-	(62)	-	91
Interest on revolving credit facility	-	1	-	1
	5	9	20	(47)

In the corresponding year, net realised gain on forward foreign exchange contract arose from forward foreign exchange contracts entered in relation to loan due from a subsidiary.

B7. TAX EXPENSE

In RM Mil	Individual quarter ended 31 December 2017	2016	Year ended 31 December 2017	2016
Current tax expenses				
Current period tax	193	170	721	913
Over provision in respect of prior periods	(16)	(8)	(17)	(22)
	177	162	704	891
Deferred tax expenses				
Origination and reversal of temporary differences	62	(78)	119	(64)
Under/(Over) provision in respect of prior periods	34	56	(1)	61
	96	(22)	118	(3)
	273	140	822	888

The Group's effective tax rates for the year ended 31 December 2017 and 2016 are 16% and 22% respectively as compared to the corporate income tax rate of 24%. The lower effective tax rate for the year ended 31 December 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 year was mainly due to the write-off of assets relating to the cancellation of elastomers project, which was non-deductible for tax purposes as well as the 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 year under review.

B9. QUOTED SECURITIES

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

B10. STATUS OF CORPORATE PROPOSALS

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

PART B – OTHER EXPLANATORY NOTES (continued)

B11. BORROWINGS

The details of the Group borrowings are as follows:

In RM Mil	As at 31.12.2017	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 A16.

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 and year ended 31 December 2017.

B14. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter and year ended 31 December 2017.

B15. 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.

B16. DIVIDENDS

The Directors of the Company has declared a second interim single tier dividend of 15 sen per ordinary share, amounting to RM1,200 million to shareholders for the year ended 31 December 2017 (2016: second interim single tier dividend for the year ended 31 December 2016 of 12 sen per share, amounting to RM960 million).

The dividends are payable on 21 March 2018 to depositors registered in the Records of Depositors at the close of business on 7 March 2018.

A Depositor shall qualify for entitlement to the dividends only in respect of:

a) Shares transferred into the Depositor's Securities Account before 4.00 pm on 7 March 2018 in respect of ordinary transfers.

b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the rules of the Bursa Malaysia Securities Berhad.

PART B – OTHER EXPLANATORY NOTES (continued)

B17. BASIC EARNINGS PER SHARE

In RM Mil	Individual quarter ended 31 December 2017	2016	Year ended 31 December 2017	2016
Profit for the period attributable to shareholders of the Company	**1,005**	987	**4,177**	2,932
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)	**13**	12	**52**	37

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.

B18. EXCHANGE RATES

USD/MYR	Individual quarter ended 31.12.2017	30.9.2017	31.12.2016	Year ended 31.12.2017	31.12.2016
Average rate	**4.1590**	4.2616	4.3214	**4.3002**	4.1459
Closing rate	**4.0595**	4.2265	4.4845	**4.0595**	4.4845

By order of the Board

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

Kuala Lumpur
20 February 2018