PETRONAS CHEMICALS GROUP BERHAD

Quarterly Report

For Fourth Quarter and Year Ended 31 December 2018

PETRONAS CHEMICALS GROUP BERHAD (459830-K)

QUARTERLY REPORT

FOR FOURTH QUARTER AND YEAR ENDED 31 DECEMBER 2018

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 2018 which should be read in conjunction with the accompanying explanatory notes on pages 6 to 19.

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

In RM Mil	Note	Individual quarter ended 31 December 2018	2017	Year ended 31 December 2018	2017
Revenue		5,062	4,740	19,576	17,407
Cost of revenue		(3,355)	(3,083)	(12,702)	(11,021)
Gross profit		1,707	1,657	6,874	6,386
Selling and distribution expenses		(220)	(201)	(818)	(764)
Administration expenses		(181)	(163)	(694)	(615)
Other expenses		(19)	3	(200)	(9)
Other income		152	74	397	242
Operating profit	B4	1,439	1,370	5,559	5,240
Financing costs	B5	(4)	(5)	(17)	(20)
Share of profit/(loss) of equity-accounted joint ventures and associates, net of tax		42	(43)	108	16
Profit before taxation		1,477	1,322	5,650	5,236
Tax expense	B6	(178)	(273)	(592)	(822)
PROFIT FOR THE PERIOD		1,299	1,049	5,058	4,414
Other comprehensive income/(expenses)					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		(64)	(609)	166	(1,321)
Share of other comprehensive income/ (expenses) of equity-accounted joint ventures and associates		12	(44)	36	(113)
Total other comprehensive (expense)/income for the period		(52)	(653)	202	(1,434)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,247	396	5,260	2,980
Profit attributable to:					
Shareholders of the Company		1,285	1,005	4,979	4,177
Non-controlling interests		14	44	79	237
PROFIT FOR THE PERIOD		1,299	1,049	5,058	4,414
Total comprehensive income attributable to:					
Shareholders of the Company		1,233	352	5,182	2,743
Non-controlling interests		14	44	78	237
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,247	396	5,260	2,980
Basic earnings per share attributable to shareholders of the Company:					
Based on ordinary shares issued (sen)	B14	16	13	62	52

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 31.12.2018	As at 31.12.2017
ASSETS			
Property, plant and equipment		19,080	20,792
Prepaid lease payments		28	42
Investments in joint ventures and associates		1,232	1,192
Intangible asset		-	1
Long term receivables		29	113
Deferred tax assets		237	300
TOTAL NON-CURRENT ASSETS		20,606	22,440
Trade and other inventories		1,698	1,723
Trade and other receivables	B8	2,668	2,370
Tax recoverable		64	55
Cash and cash equivalents		12,329	6,674
TOTAL CURRENT ASSETS		16,759	10,822
TOTAL ASSETS		37,365	33,262
EQUITY			
Share capital		8,871	8,871
Reserves		21,608	18,994
Total equity attributable to shareholders of the Company		30,479	27,865
Non-controlling interests		695	1,003
TOTAL EQUITY		31,174	28,868
LIABILITIES			
Deferred tax liabilities		919	838
Other long term liabilities and provisions		163	212
TOTAL NON-CURRENT LIABILITIES		1,082	1,050
Borrowings	B9	2,072	-
Trade and other payables		2,896	3,217
Current tax payables		141	127
TOTAL CURRENT LIABILITIES		5,109	3,344
TOTAL LIABILITIES		6,191	4,394
TOTAL EQUITY AND LIABILITIES		37,365	33,262
Net assets per share attributable to the shareholders of the Company (RM)		3.81	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
Year ended 31 December 2018					
At 1 January 2018	8,871	-	(244)	(204)	461
Foreign currency translation differences	-	-	167	-	-
Share of other comprehensive income of equity-accounted joint ventures and associates	-	-	-	-	36
Total other comprehensive income/(expenses) for the year	-	-	167	-	36
Profit for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	167	-	36
Redemption of redeemable preference shares in subsidiaries	-	-	-	-	107
Additional equity interest in subsidiaries	-	-	-	-	-
Dividends to shareholders of the Company	-	-	-	-	-
Total transactions with owners of the Group	-	-	-	-	107
Balance at 31 December 2018	8,871	-	(77)	(204)	604
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 a non-controlling interest	-	-	-	-	-
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 owners of the Group	8,071	(8,071)	-	-	24
Balance at 31 December 2017	8,871	-	(244)	(204)	461

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Note a: In accordance with Section 618 of Companies Act, 2016, 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 Companies Act, 2016 on 31 January 2017 to utilise the credit in accordance with Section 618(3) of Companies Act 2016. The period for utilisation has expired and the Company did not utilise the share premium amounting to RM8,071 million.

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	Attributable to shareholders of the Company: Total	Non-controlling Interests	Total Equity
Year ended 31 December 2018				
At 1 January 2018	18,981	27,865	1,003	28,868
Foreign currency translation differences	-	167	(1)	166
Share of other comprehensive income of equity-accounted joint ventures and associates	-	36	-	36
Total other comprehensive income/(expenses) for the year	-	203	(1)	202
Profit for the year	4,979	4,979	79	5,058
Total comprehensive income for the year	4,979	5,182	78	5,260
Redemption of redeemable preference shares in a subsidiary	(107)	-	-	-
Additional equity interest in subsidiaries	(248)	(248)	(386)	(634)
Dividends to shareholders of the Company	(2,320)	(2,320)	-	(2,320)
Total transactions with owners of the Group	(2,675)	(2,568)	(386)	(2,954)
Balance at 31 December 2018	21,285	30,479	695	31,174
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 a non-controlling interest	-	-	7	7
Dividends to shareholders of the Company	(1,920)	(1,920)	-	(1,920)
Dividends to non-controlling interests	-	-	(512)	(512)
Transfer in accordance with Section 618(2) of the Companies Act 2016 to no-par value regime on 31 January 2017	-	-	-	-
Total transactions with owners of the Group	(1,944)	(1,920)	(505)	(2,425)
Balance at 31 December 2017	18,981	27,865	1,003	28,868

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

In RM Mil	Year ended 31 December 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	5,650	5,236
Adjustments for:		
- Depreciation and amortisation	1,619	1,589
- Finance costs	17	20
- Interest income	(315)	(211)
- Loss on partial divestment of a subsidiary	160	-
- Share of profit of equity-accounted joint ventures and associates, net of tax	(108)	(16)
- Other non-cash items [Note a]	7	(290)
Operating profit before changes in working capital	7,030	6,328
Change in trade and other inventories	(31)	(359)
Change in trade and other receivables	(292)	203
Change in trade and other payables [Note a]	99	(439)
Cash generated from operations	6,806	5,733
Interest income received	304	195
Taxation paid	(443)	(617)
Net cash generated from operating activities	6,667	5,311
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from joint ventures and associates	124	98
Investment in an associate	(21)	(24)
Proceeds from disposal of property, plant and equipment	2	2
Proceeds from partial divestment of equity and shareholder loans in a subsidiary, net of cash divested	969	-
Purchase of property, plant and equipment	(2,957)	(3,446)
Net cash used in investing activities	(1,883)	(3,370)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to:		
- PETRONAS	(1,493)	(1,236)
- others (third parties)	(827)	(684)
- non-controlling interests	-	(554)
Drawdown of term loan	3,886	-
Payment to a non-controlling interest on additional equity interest	(634)	-
Proceeds from shares issued to a non-controlling interest	-	7
Repayment of:		
- finance lease liabilities	(56)	(55)
- revolving credit	-	(23)
Net cash generated from/(used in) financing activities	876	(2,545)
Net cash flows from operating, investing and financing activities	5,660	(604)
Effect of foreign currency translation differences	(17)	(5)
Net increase/(decrease) in cash and cash equivalents	5,643	(609)
Net foreign exchange differences on cash held	12	(120)
Cash and cash equivalents at beginning of the year	6,674	7,403
Cash and cash equivalents at end of the year	12,329	6,674

Note a: Included in the comparative figure for change in trade and other payables are non-cash items amounting to RM312 million which have now been reclassified into other non-cash items accordingly.

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, its subsidiaries and a joint operation, as well as the Group's interest in joint ventures and associates as at and for the quarter and year ended 31 December 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, and amendments to MFRS and IC interpretation (collectively referred to as "pronouncements") which are applicable and effective for annual periods beginning on or after 1 January 2018.

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

The initial application of the above pronouncements did not have any material impact to the accounting policies 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 period under review, other than as disclosed in note B9.

A8. DIVIDEND PAID

During the period under review, the Company paid:

(i) 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.

(ii) A first interim single tier dividend of 14 sen per ordinary share, amounting to RM1,120 million in respect of the financial year ended 31 December 2018 to shareholders on 20 September 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

					Year ended 31 December	
	2018	2017	2018	2017	2018	2017
In RM Mil	Third Parties		Inter-segment		Gross Total	
Olefins and Derivatives	12,280	11,350	17	12	12,297	11,362
Fertilisers and Methanol	7,241	6,013	128	155	7,369	6,168
Others	55	44	47	41	102	85
Total	19,576	17,407	192	208	19,768	17,615

9.2 Segment Profit[1]

	Year ended 31 December	
In RM Mil	2018	2017
Olefins and Derivatives	2,829	2,771
Fertilisers and Methanol	2,261	1,609
Others	(32)	34
Total	5,058	4,414

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 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, Pengerang Petrochemical Company Sdn. Bhd. (formerly known as PRPC Polymers Sdn. Bhd.) (PPCSB) in accordance with the Share Purchase Agreement entered between the Company and Aramco Overseas Holdings Coöperatief U.A dated 29 September 2017. Pursuant to this, PPCSB ceased to be a subsidiary of the Company and has 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, PETRONAS Chemicals Olefins Sdn. Bhd. (PC Olefins) and PETRONAS Chemicals LDPE Sdn. Bhd. (PC LDPE). As a result of the acquisition, PC Olefins and PC LDPE have become wholly-owned subsidiaries of the Company.

[1] Included within profit for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM812 million (2017: RM817 million), RM785 million (2017: RM750 million) and RM22 million (2017: RM22 million) respectively.

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

A12. CONTINGENCIES

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

A13. CHANGES IN COMPOSITION OF THE GROUP

There were 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 31.12.2018	As at 31.12.2017
Property, plant and equipment:		
Approved and contracted for	1,028	3,695
Approved but not contracted for	1,438	3,257
	2,466	6,952

Included in the above is an amount of RM1.5 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 December 2018

Fair value of financial instruments carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Total	Nominal value
Financial assets					
Forward foreign exchange contracts					
- within 1 year	-	10	-	10	1,330
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(8)	-	(8)	(978)

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	-	-	(42)	(42)	(42)

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 December	
	2018	2017	2018	2017	2018	2017
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	5,062	4,740	3,224	2,969	1,850	1,813
Profit after tax	1,299	1,049	693	637	524	391
EBITDA[2]	1,686	1,727	1,032	963	676	774

PCG Group attained plant utilisation of 94% compared to 93% in the corresponding quarter with lower level of maintenance activities undertaken during the quarter. Production volumes increased following better plant performance. However, sales volumes remained comparable due to replenishment of inventory post statutory turnaround activities.

Overall average product prices improved on the back of higher crude oil price.

The Group's revenue increased by RM322 million or 7% to RM5.1 billion largely driven by higher product prices, higher sales volumes for ethane-based products and the weakening of Ringgit Malaysia against US Dollar.

EBITDA decreased marginally by RM41 million or 2% to RM1.7 billion despite higher revenue, mainly due to higher operating expenditure relating to maintenance activities undertaken during the quarter. Nonetheless, profit after tax increased by RM250 million or 24% to RM1.3 billion as the lower EBITDA was partially negated by lower tax expenses and higher share of profits from joint ventures and associates.

Olefins and Derivatives

The segment recorded plant utilisation of 100% against 98% in the corresponding quarter in line with lower level of maintenance activities mainly at its cracker and related downstream facilities. Correspondingly, production and sales volumes were also higher.

Average product prices for the segment remained comparable with the corresponding quarter despite the higher crude oil price, due to oversupply in the market and weak demand.

Revenue was higher by RM255 million or 9% at RM3.2 billion primarily driven by higher sales volumes and the weakening of Ringgit Malaysia against US Dollar.

EBITDA for the segment increased by RM69 million or 7% to RM1.0 billion following higher revenue. Profit after tax also increased by RM56 million or 9% to RM693 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

Plant utilisation for the segment was lower at 89% against 90% in the corresponding quarter due to higher level of statutory turnaround activities. Correspondingly, production and sales volumes declined.

Average product prices for the quarter improved in line with higher crude oil price as the segment recover from oversupply situation for urea and ammonia in the corresponding quarter.

Revenue was higher by RM37 million or 2% at RM1.9 billion following higher product prices and the weakening of Ringgit Malaysia against US Dollar which partially offset by the lower sales volumes.

Despite higher revenue, EBITDA decreased by RM98 million or 13% to RM676 million mainly due to the higher operating expenditure relating to maintenance activities undertaken during the statutory turnaround. Nonetheless, profit after tax increased by RM133 million or 34% to RM524 million mainly attributable to lower tax expense and higher share of profits from joint venture and associate.

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

						Year ended 31 December
	2018	2017	2018	2017	2018	2017
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	19,576	17,407	12,297	11,362	7,369	6,168
Profit after tax	5,058	4,414	2,829	2,771	2,261	1,609
EBITDA[3]	6,965	6,618	4,048	4,098	3,021	2,572

The Group's plant utilisation was at 92%, slightly higher than 91% in the corresponding year. Production and sales volumes were higher largely contributed by urea production from PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd. (PCFSSB) which commenced commercial operation in May 2017.

Overall average product prices were higher than corresponding year in tandem with higher crude oil price.

Revenue increased by RM2.2 billion or 12% at RM19.6 billion on the back of higher product prices and sales volumes, partially offset by the strengthening of Ringgit Malaysia against US Dollar.

EBITDA was higher by RM347 million or 5% to RM7.0 billion primarily driven by higher revenue. Profit after tax also increased by RM644 million or 15% to RM5.1 billion in line with higher EBITDA, further supported by lower tax expense.

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

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

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

Olefins and Derivatives

Plant utilisation increased from 94% in the corresponding year to 97% in the current year primarily due to lower level of maintenance activities. Production and sales volumes increased driven by better plant performance.

Average product prices improved in tandem with the strengthening of crude oil price.

Revenue increased by RM935 million or 8% at RM12.3 billion largely attributable to higher product prices and sales volumes, partially negated by the strengthening of Ringgit Malaysia against US Dollar.

EBITDA was marginally lower by RM50 million or 1% to RM4.0 billion following a once-off adjustment relating to under accrual of manpower-related expenses in respect of the previous year. Nonetheless, profit after tax increased by RM58 million or 2% to RM2.8 billion contributed by lower tax expense.

Fertilisers and Methanol

Plant utilisation for the segment was at 89% against 90% in the corresponding year largely driven by higher level of statutory turnaround activities at its urea and methanol plants. However, both production and sales volumes increased, contributed by urea production from PCFSSB which commenced commercial operation in May 2017.

Average product prices strengthened across all products in line with higher crude oil price.

The segment recorded higher revenue by RM1.2 billion or 19% to RM7.4 billion mainly driven by higher prices and sales volumes, partially negated by the strengthening of Ringgit Malaysia against US Dollar.

EBITDA was higher by RM449 million or 17% at RM3.0 billion in tandem with higher revenue. Profit after tax also increased from the corresponding year by RM652 million or 41% to RM2.3 billion, supported by lower tax expense and higher share of profits from joint venture and associate.

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

(c) Variation of results against the preceding quarter

In RM Mil	Individual quarter ended 31 December 2018	Individual quarter ended 30 September 2018
Revenue	5,062	4,830
Profit after tax	1,299	1,272
EBITDA[4]	1,686	1,628

The Group's plant utilisation improved from 79% to 94% primarily due to lower level of statutory turnaround activities in the current quarter. Production and sales volumes increased on the back of better plant utilisation.

Overall average product prices declined as crude oil price weakened from the preceding quarter.

Despite lower product prices, revenue increased by RM232 million or 5% at RM5.1 billion on the back of higher sales volumes and the weakening of Ringgit Malaysia against US Dollar.

EBITDA was higher by RM58 million or 4% to RM1.7 billion in tandem with higher revenue. Profit after tax increased slightly by RM27 million or 2% to RM1.3 billion contributed by unrealised foreign exchange gain arising from its shareholders loan, partially offset by higher tax expense upon derecognition of unutilised business losses and reinvestment allowances pursuant to Finance Act 2018 where period of utilisation of these incentives has been limited to 7 years.

(d) Highlight on consolidated statement of financial position

In RM Mil	As at 31.12.2018	As at 31.12.2017
Total assets	37,365	33,262
Total equity	31,174	28,868
ROE (%)	16.0	14.5

The Group's total assets were higher by RM4.1 billion or 12% at RM37.4 billion. This was primarily due to the increase in cash and cash equivalent by RM5.7 billion or 85% to RM12.3 billion; contributed by profit generated during the year, term loan drawdown, as well as divestment of 50% equity interest and shareholder loans in a subsidiary, partially offset by capital investment in the petrochemicals projects within PIC, dividend payment to shareholders and payment for the acquisition of a non-controlling interest in certain subsidiaries. However, the increase in total assets was partially offset by reduction in property, plant and equipment of RM1.7 billion or 8% to RM19.0 billion upon the abovementioned divestment.

Total equity was higher by RM2.3 billion or 8% at RM31.2 billion largely attributable to profit generated during the year which was partially offset by dividend payment to shareholders and acquisition of shares held by a non-controlling interest in certain subsidiaries.

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

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

(e) Highlight on consolidated statement of cash flows

In RM Mil	Year ended 31 December 2018	2017
Net cash generated from operating activities	6,667	5,311
Net cash used in investing activities	(1,883)	(3,370)
Net cash generated from/(used in) financing activities	876	(2,545)

Net cash generated from operating activities increased by RM1.4 billion or 26% to RM6.7 billion primarily contributed by the higher profit generated and changes in working capital during the year.

Net cash used in investing activities was lower by RM1.5 billion or 44% at RM1.9 billion mainly attributable to proceeds from divestment of 50% equity interest in a subsidiary as well as lower capital investment in petrochemicals projects within PIC.

There was net cash generated from financing activities of RM876 million as compared to net cash used in the corresponding year of RM2.5 billion largely due to term loan drawdown by a subsidiary in the current year, partially negated by acquisition of shares held by a non-controlling interest in certain subsidiaries.

B2. COMMENTARY ON PROSPECTS

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

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

Olefins and Derivatives

The Group anticipates that the Olefins and Derivatives segment to soften in the coming quarter. This is in view of ample supply from South-East Asia, amidst a slowdown in downstream demand leading up to Chinese New Year holidays.

Fertilisers and Methanol

The Group expects the Fertiliser and Methanol segment to be soft as supplies resume after plant turnarounds amidst lower demand in view of low downstream product prices.

B3. PROFIT FORECAST OR PROFIT GUARANTEE

The Group does not publish any profit forecast.

PART B – OTHER EXPLANATORY NOTES (continued)

B4. OPERATING PROFIT

In RM Mil	Individual quarter ended 31 December 2018	2017	Year ended 31 December 2018	2017
Included in operating profit are the following charges:				
Depreciation and amortisation	393	423	1,619	1,589
Loss on partial divestment of a subsidiary	7	-	160	-
Inventories:				
- written down to net realisable value	15	13	20	13
- written-off	3	6	3	6
Impairment loss on property, plant and equipment	2	-	2	-
Net loss on disposal of property, plant and equipment	-	-	-	9
and credits:				
Interest income	96	68	315	211
Net gain on foreign exchange	43	13	35	2
Net gain on disposal of property, plant and equipment	-	1	-	-

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

Foreign exchange exposure / hedging policy

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

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

B5. FINANCING COSTS

In RM Mil	Individual quarter ended 31 December 2018	2017	Year ended 31 December 2018	2017
Unwinding of discount factor for other long term liabilities and provisions	4	5	15	20
Financial guarantee fee on term loan	-	-	2	-
	4	5	17	20

PART B – OTHER EXPLANATORY NOTES (continued)

B6. TAX EXPENSE

In RM Mil	Individual quarter ended 31 December 2018	2017	Year ended 31 December 2018	2017
Current tax expenses				
Current period tax	72	193	456	721
Over provision in respect of prior periods	(3)	(16)	(8)	(17)
	69	177	448	704
Deferred tax expenses				
Origination and reversal of temporary differences	111	62	134	119
(Over)/Under provision in respect of prior periods	(2)	34	10	(1)
	109	96	144	118
	178	273	592	822

The Group's effective tax rates for the individual and cumulative quarters ended 31 December 2018 are 12% and 10% respectively, which is reflective of the various tax legislations within which the Group operates, including among others Malaysia Income Tax Act 1967 and Global Incentive for Trading (GIFT) under Labuan Financial Services and Securities Act 2010.

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.

B8. TRADE AND OTHER RECEIVABLES

(a) Details of Group trade and other receivables

In RM Mil	As at 31.12.2018	As at 31.12.2017
Trade receivables:		
- Third party	1,700	1,539
- Joint ventures and associates	283	261
- Related companies	115	99
Other receivables	570	471
	2,668	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 31.12.2018	As at 31.12.2017
Current	2,027	1,884
Past due 1 to 30 days	66	15
Past due 31 to 60 days	5	-
	2,098	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.

PART B – OTHER EXPLANATORY NOTES (continued)

B9. BORROWINGS

(a) Details of Group borrowings

		In USD Mil		In RM Mil
	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017
Current				
Term loan - unsecured	500	-	2,072	-

The term loan relates to the procurement of a bridge loan by the Group via its subsidiary, PPCSB, on 19 March 2018 amounting to USD1.0 billion from various local and international banks. The said proceeds is 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.

(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 31.12.2018
In RM Mil					
Term loan - unsecured	-	3,886	(1,931)	117	2,072

On 28 March 2018, the Company completed divestment of its 50% equity interests and shareholder loans in PPCSB 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 period under review.

B12. 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.

PART B – OTHER EXPLANATORY NOTES (continued)

B13. DIVIDENDS

The Directors of the Company have declared a second interim single tier dividend of 18 sen per ordinary share, amounting to RM1,440 million in respect of the financial year ended 31 December 2018 (2017: 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).

The dividends are payable on 27 March 2019 to depositors registered in the Records of Depositors at the close of business on 12 March 2019.

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 12 March 2019 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.

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 December		Year ended 31 December	
	2018	2017	2018	2017
In RM Mil				
Profit for the period attributable to shareholders of the Company	1,285	1,005	4,979	4,177
In millions of shares				
Number of ordinary shares issued	8,000	8,000	8,000	8,000
In sen				
Basic earnings per share	16	13	62	52

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.

B15. EXCHANGE RATES

	Individual quarter ended			Year ended	
USD/MYR	31.12.2018	30.09.2018	31.12.2017	31.12.2018	31.12.2017
Average rate	4.1721	4.0930	4.1590	4.0347	4.3002
Closing rate	4.1445	4.1445	4.0595	4.1445	4.0595

By order of the Board

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

Kuala Lumpur
25 February 2019