PETRONAS CHEMICALS GROUP BERHAD

Quarterly Report

For First Quarter Ended 31 March 2019

PETRONAS CHEMICALS GROUP BERHAD (459830-K)

QUARTERLY REPORT

FOR FIRST QUARTER ENDED 31 MARCH 2019

The Board of Directors of PETRONAS Chemicals Group Berhad ("PCG" or "the Company") is pleased to announce the following unaudited condensed consolidated financial statements for the quarter ended 31 March 2019 which should be read in conjunction with the accompanying explanatory notes on pages 6 to 17.

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

		Individual quarter ended 31 March	
In RM Mil	**Note**	**2019**	**2018**
Revenue		4,130	4,951
Cost of revenue		(2,859)	(3,100)
Gross profit		1,271	1,851
Selling and distribution expenses		(217)	(204)
Administration expenses		(196)	(208)
Other expenses		(32)	(179)
Other income		100	63
Operating profit	B4	926	1,323
Financing costs		(9)	(4)
Share of (loss)/profit of equity-accounted joint ventures and associates, net of tax		(24)	17
Profit before taxation		893	1,336
Tax expense	B5	(80)	(229)
PROFIT FOR THE PERIOD		813	1,107
Other comprehensive expenses			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		(95)	(94)
Share of other comprehensive expenses of equity-accounted joint ventures and associates		(26)	(46)
Total other comprehensive expenses for the period		(121)	(140)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		692	967
Profit attributable to:			
Shareholders of the Company		802	1,065
Non-controlling interests		11	42
PROFIT FOR THE PERIOD		813	1,107
Total comprehensive income attributable to:			
Shareholders of the Company		681	925
Non-controlling interests		11	42
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		692	967
Basic earnings per share attributable to shareholders of the Company:			
Based on ordinary shares issued (sen)	B12	10	13

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.

PETRONAS

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RM Mil	Note	As at 31.03.2019	As at 31.12.2018
ASSETS			
Property, plant and equipment		19,614	19,080
Prepaid lease payments		-	28
Investments in joint ventures and associates		1,153	1,232
Long term receivables		-	29
Deferred tax assets		230	237
TOTAL NON-CURRENT ASSETS		20,997	20,606
Trade and other inventories		1,627	1,698
Trade and other receivables	B7	2,282	2,668
Tax recoverable		65	64
Cash and cash equivalents		11,648	12,329
TOTAL CURRENT ASSETS		15,622	16,759
TOTAL ASSETS		36,619	37,365
EQUITY			
Share capital		8,871	8,871
Reserves		20,848	21,608
Total equity attributable to shareholders of the Company		29,719	30,479
Non-controlling interests		644	695
TOTAL EQUITY		30,363	31,174
LIABILITIES			
Lease liabilities		606	-
Deferred tax liabilities		921	919
Other long term liabilities and provisions		121	163
TOTAL NON-CURRENT LIABILITIES		1,648	1,082
Borrowings	B8	2,040	2,072
Lease liabilities		67	-
Trade and other payables		2,341	2,896
Current tax payables		160	141
TOTAL CURRENT LIABILITIES		4,608	5,109
TOTAL LIABILITIES		6,256	6,191
TOTAL EQUITY AND LIABILITIES		36,619	37,365
Net assets per share attributable to the shareholders of the Company (RM)		3.71	3.81

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**	**Foreign Currency Translation Reserve**	**Merger Reserve**	**Other Reserves**
Individual quarter ended 31 March 2019				
At 1 January 2019, as previously reported	8,871	(77)	(204)	604
- Effect of the adoption of MFRS 16	-	-	-	-
At 1 January 2019, restated	8,871	(77)	(204)	604
Foreign currency translation differences	-	(95)	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	(26)
Total other comprehensive expenses for the period	-	(95)	-	(26)
Profit for the period	-	-	-	-
Total comprehensive expenses for the period	-	(95)	-	(26)
Additional shares issued to a non-controlling interest	-	-	-	-
Dividends to shareholders of the Company	-	-	-	-
Total transactions with owners of the Group	-	-	-	-
Balance at 31 March 2019	8,871	(172)	(204)	578
Individual quarter ended 31 March 2018				
At 1 January 2018	8,871	(244)	(204)	461
Foreign currency translation differences	-	(94)	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	(46)
Total other comprehensive expenses for the period	-	(94)	-	(46)
Profit for the period	-	-	-	-
Total comprehensive expenses for the period	-	(94)	-	(46)
Additional equity interest in subsidiaries	-	-	-	-
Dividends to shareholders of the Company	-	-	-	-
Total transactions with owners of the Group	-	-	-	-
Balance at 31 March 2018	8,871	(338)	(204)	415

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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 CHANGES IN EQUITY (continued)

In RM Mil	***Attributable to shareholders of the Company*** ***Distributable*** **Retained Profits**	**Total**	**Non-controlling Interests**	**Total Equity**
Individual quarter ended 31 March 2019				
At 1 January 2019, as previously reported	21,285	30,479	695	31,174
- Effect of the adoption of MFRS 16	(1)	(1)	-	(1)
At 1 January 2019, restated	21,284	30,478	695	31,173
Foreign currency translation differences	-	(95)	-	(95)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(26)	-	(26)
Total other comprehensive expenses for the period	-	(121)	-	(121)
Profit for the period	802	802	11	813
Total comprehensive income for the period	802	681	11	692
Additional shares issued to a non-controlling interest	-	-	1	1
Dividends to shareholders of the Company	(1,440)	(1,440)	-	(1,440)
Dividends to non-controlling interests	-	-	(63)	(63)
Total transactions with owners of the Group	(1,440)	(1,440)	(62)	(1,502)
Balance at 31 March 2019	20,646	29,719	644	30,363
Individual quarter ended 31 March 2018				
At 1 January 2018	18,981	27,865	1,003	28,868
Foreign currency translation differences	-	(94)	-	(94)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(46)	-	(46)
Total other comprehensive expenses for the period	-	(140)	-	(140)
Profit for the period	1,065	1,065	42	1,107
Total comprehensive income for the period	1,065	925	42	967
Additional equity interest in subsidiaries	(248)	(248)	(386)	(634)
Dividends to shareholders of the Company	(1,200)	(1,200)	-	(1,200)
Total transactions with owners of the Group	(1,448)	(1,448)	(386)	(1,834)
Balance at 31 March 2018	18,598	27,342	659	28,001

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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

	Individual quarter ended 31 March	
In RM Mil	**2019**	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**893**	1,336
Adjustments for:		
- Depreciation and amortisation	**407**	411
- Financing costs	**9**	4
- Interest income	**(96)**	(46)
- Loss on partial divestment of a subsidiary	**-**	153
- Share of loss/(profit) of equity-accounted joint ventures and associates, net of tax	**24**	(17)
- Other non-cash items	**42**	(26)
Operating profit before changes in working capital	**1,279**	1,815
Change in trade and other inventories	**49**	129
Change in trade and other receivables	**387**	(104)
Change in trade and other payables	**(323)**	(115)
Cash generated from operations	**1,392**	1,725
Interest income received	**91**	41
Taxation paid	**(52)**	(139)
Net cash generated from operating activities	**1,431**	1,627
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from joint ventures and associates	**30**	25
Proceeds from disposal of property, plant and equipment	**-**	2
Proceeds from partial divestment of equity and shareholder loans in a subsidiary, net of cash divested	**-**	969
Purchase of property, plant and equipment	**(573)**	(1,061)
Net cash used in investing activities	**(543)**	(65)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to:		
- PETRONAS	**(927)**	(772)
- others (third parties)	**(513)**	(428)
- non-controlling interests	**(63)**	-
Drawdown of term loan	**-**	3,886
Payment to a non-controlling interest on additional equity interest	**-**	(630)
Proceeds from shares issued to a non-controlling interest	**1**	-
Repayment of lease liabilities	**(19)**	(14)
Net cash (used in)/generated from financing activities	**(1,521)**	2,042
Net cash flows from operating, investing and financing activities	**(633)**	3,604
Effect of foreign currency translation differences	**7**	(11)
Net (decrease)/increase in cash and cash equivalents	**(626)**	3,593
Net foreign exchange differences on cash held	**(55)**	(30)
Cash and cash equivalents at beginning of the period	**12,329**	6,674
Cash and cash equivalents at end of the period	**11,648**	10,237

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 2018. 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 2018.

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 2019.

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 audited consolidated financial statements for the year ended 31 December 2018.

As of 1 January 2019, the Group has adopted the following new MFRS, amendments to MFRSs and IC interpretation (collectively referred to as "pronouncements") which are effective for annual periods beginning on or after 1 January 2019.

MFRS 16	*Leases*
Amendments to MFRS 3	*Business Combinations (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 11	*Joint Arrangements (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 112	*Income Taxes (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 119	*Employee Benefits: Plan Amendment, Curtailment or Settlement*
Amendments to MFRS 123	*Borrowing Costs (Annual Improvements 2015 – 2018 Cycle)*
Amendments to MFRS 128	*Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*
IC Interpretation 23	*Uncertainty over Income Tax Treatments*

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

MFRS 16 *Leases*

MFRS 16 replaces existing leases guidance in MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease,* IC Interpretation 115 *Operating Leases – Incentives*, and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

MFRS 16 introduces a single, on balance sheet lease accounting for lessees. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance lease or operating lease.

Right-of-use assets including prepayments are included under property, plant and equipment whilst the corresponding liabilities are included as lease liabilities in the statement of financial position.

There was no material impact on the Group's consolidated financial statements upon initial application of MFRS 16.

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

A3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The audited financial statements of PCG and its subsidiaries for the year ended 31 December 2018 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 2018 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 B8.

A8. DIVIDEND PAID

During the period under review, the Company paid 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 to shareholders on 27 March 2019.

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.

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

A9. OPERATING SEGMENTS (continued)

9.1 Revenue

	Individual quarter ended 31 March					
	2019	2018	2019	2018	2019	2018
In RM Mil	Third Parties		Inter-segment		Gross Total	
Olefins and Derivatives	**2,749**	3,151	**-**	4	**2,749**	3,155
Fertilisers and Methanol	**1,367**	1,787	**-**	44	**1,367**	1,831
Others	**14**	13	**12**	12	**26**	25
Total	**4,130**	4,951	**12**	60	**4,142**	5,011

9.2 Segment Profit for the Period[1]

	Individual quarter ended 31 March	
In RM Mil	2019	2018
Olefins and Derivatives	**461**	719
Fertilisers and Methanol	**382**	564
Others	**(30)**	(176)
Total	**813**	1,107

A10. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

There were no revaluations of property, plant and equipment for the period under review. As at 31 March 2019, all property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

A11. SUBSEQUENT EVENTS

i) On 1 April 2019, the Group via its joint operation company, Pengerang Petrochemical Company Sdn. Bhd. (PPC) executed the first phase of project financing amounting to USD0.2 billion for partial repayment of the bridge loan as disclosed in note B8.

The execution of the project financing was not expected to have any material impact on the earnings of the Group for the financial year ending 31 December 2019.

Further details of the agreement is as stated in a separate Bursa Announcement issued on 2 April 2019.

ii) On 15 May 2019, PCG entered into a Sale and Purchase Agreement to acquire 100% of the shares in Da Vinci Group B.V. (Da Vinci) from its shareholders including, among others, funds managed by Bencis Capital Partners for a purchase consideration of EUR163 million in cash subject to customary completion adjustments.

The completion of the acquisition is subject to fulfillment of certain conditions precedent. Upon completion, Da Vinci will become a wholly owned subsidiary of PCG.

Further details of the acquisition is as stated in a separate Bursa Announcement issued on 16 May 2019.

A12. CONTINGENCIES

There were no material contingent liabilities or contingent assets since the last audited consolidated financial statements for the year ended 31 December 2018.

[1] Included within profit for the period for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM197 million (2018: RM204 million), RM203 million (2018: RM202 million) and RM7 million (2018: RM5 million) respectively.

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

A13. CHANGES IN COMPOSITION OF THE GROUP

There were no other material changes in the composition of the Group for the period under review.

A14. CAPITAL COMMITMENTS

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

In RM Mil	**As at 31.03.2019**	**As at 31.12.2018**
Property, plant and equipment:		
Approved and contracted for	**904**	1,028
Approved but not contracted for	**1,256**	1,438
	2,160	2,466

Included in the above is an amount of RM1.2 billion (2018: RM1.5 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 short term 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.

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

A15. FAIR VALUE INFORMATION (continued)

The following table analyses financial instruments carried at fair value shown in the statement of financial position.

As at 31 March 2019
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	-	4	-	4	543
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(4)	-	(4)	(209)

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)

PART B – OTHER EXPLANATORY NOTES

B1. REVIEW OF GROUP PERFORMANCE

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

	Individual quarter ended 31 March					
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
In RM Mil		**Group**	**Olefins and Derivatives**		**Fertilisers and Methanol**	
Revenue	**4,130**	4,951	**2,749**	3,155	**1,367**	1,831
Profit after tax	**813**	1,107	**461**	719	**382**	564
EBITDA[2]	**1,262**	1,840	**733**	1,106	**587**	779

PCG Group recorded lower plant utilisation of 95% as compared to 100% in the corresponding quarter, mainly due to higher level of maintenance and statutory turnaround activities at its methanol and aromatics plants respectively. Sales volumes was lower in line with lower production.

Overall average prices for the Group decreased from the corresponding quarter in tandem with declining crude oil price.

Revenue was lower by RM821 million or 17% at RM4.1 billion largely due to lower product prices and sales volumes, partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA decreased by RM578 million or 31% to RM1.3 billion in line with lower revenue and higher operating expenditure relating to maintenance activities. Profit after tax also reduced by RM294 million or 27% to RM813 million following lower EBITDA, partially offset by lower tax expense. In addition, there was an impact of foreign exchange loss on its shareholder loans pursuant to the divestment of 50% equity interest in a subsidiary in the corresponding quarter.

Olefins and Derivatives

The segment maintained plant utilisation of 100%. Nonetheless, both production and sales volumes slightly decreased due to statutory turnaround activities undertaken at its aromatics plant.

Average product prices for the segment declined as crude oil prices decreased.

Revenue was lower by RM406 million or 13% at RM2.7 billion as a result of lower product prices and sales volumes, partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA for the segment decreased by RM373 million or 34% to RM733 million mainly due to lower revenue and higher operating expenditure relating to maintenance activities. Profit after tax was also lower by RM258 million or 36% at RM461 million in tandem with lower EBITDA, partially offset by lower tax expense.

[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

B1. REVIEW OF GROUP PERFORMANCE (continued)

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

Fertilisers and Methanol

The segment's operational performance was lower with plant utilisation of 92% compared to 100% in the corresponding quarter mainly due to higher level of maintenance activities at its methanol plants. Sales volumes was lower in line with lower production.

Average product prices for the segment was lower mainly for methanol in tandem with lower crude oil price and ample supply.

The segment's revenue decreased by RM464 million or 25% to RM1.4 billion primarily attributed to the decline in product prices and sales volumes, partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA reduced by RM192 million or 25% to RM587 million following lower revenue and higher operating expenditure relating to maintenance activities. Profit after tax also decreased by RM182 million or 32% to RM382 million.

(b) Variation of results against the preceding quarter

	Individual quarter ended	
In RM Mil	**31 March 2019**	**31 December 2018**
Revenue	**4,130**	5,062
Profit after tax	**813**	1,299
EBITDA[3]	**1,262**	1,686

The Group's plant utilisation and production volumes remain comparable against the preceding quarter. Nevertheless, sales volumes decreased mainly for methanol and aromatics due to higher level of maintenance and statutory turnaround activities. This was partially offset by higher volume for urea as the preceding quarter was affected by turnaround activities.

Overall average product prices for the Group declined in line with lower crude oil prices.

Revenue decreased by RM932 million or 18% to RM4.1 billion affected by the lower product prices and sales volumes, as well as the strengthening of Ringgit Malaysia against US Dollar.

EBITDA for the current quarter was lower by RM424 million or 25% at RM1.3 billion attributable to the decline in revenue. Profit after tax also decreased by RM486 million or 37% to RM813 million in line with lower EBITDA and net share of losses from joint ventures and associates primarily due to statutory turnaround activities undertaken at one of the associate companies.

[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

B1. REVIEW OF GROUP PERFORMANCE (continued)

(c) Highlight on consolidated statement of financial position

In RM Mil	**As at 31.03.2019**	**As at 31.12.2018**
Total assets	**36,619**	37,365
Total equity	**30,363**	31,174
ROE (%)	**15.5**	16.0

The Group's total assets were lower by RM746 million or 2% at RM36.6 billion. This was due to the decrease in cash and cash equivalent following dividend payment to shareholders and capital investment in the petrochemicals projects within PIC, partially offset by profit generated during the period.

Total equity was also lower by RM811 million or 3% at RM30.4 billion following dividend payment to shareholders, partially negated by profit generated during the period.

(d) Highlight on consolidated statement of cash flows

	Individual quarter ended 31 March	
In RM Mil	**2019**	**2018**
Net cash generated from operating activities	**1,431**	1,627
Net cash used in investing activities	**(543)**	(65)
Net cash (used in)/generated from financing activities	**(1,521)**	2,042

Net cash generated from operating activities decreased by RM196 million or 12% to RM1.4 billion, following lower profit generated during the period, partially offset by lower working capital.

Net cash used in investing activities was higher by RM478 million at RM543 million primarily as there was proceeds from divestment of 50% equity interest in a subsidiary in the corresponding quarter, partially negated by lower capital expenditure in petrochemicals projects within PIC.

Net cash used in financing activities for the period was RM1.5 billion due to dividend payment to shareholders. There was net cash generated in the corresponding period of RM2.0 billion following term loan drawdown by a subsidiary which was partially offset by the acquisition of shares held by a non-controlling interest in certain subsidiaries.

PART B – OTHER EXPLANATORY NOTES (continued)

B2. COMMENTARY ON PROSPECTS

The results of the Group's operations are expected to be primarily influenced by global economic conditions, foreign exchange rate 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 Olefins and Derivatives segment to remain comparable in the coming quarter. This is in view of sufficient supply, supported by stable end products demand with the upcoming festive season.

Fertilisers and Methanol

The Group expects that Fertiliser and Methanol segment to remain comparable as supply resumes after plant turnarounds coupled with existing demand from the end products segments. There are also two new methanol-to-olefins plants expected to start up in the next quarter.

B3. PROFIT FORECAST OR PROFIT GUARANTEE

The Group does not publish any profit forecast.

B4. OPERATING PROFIT

	Individual quarter ended	
		31 March
In RM Mil	**2019**	**2018**
Included in operating profit are the following charges:		
Depreciation and amortisation	**407**	411
Net loss on foreign exchange	**23**	12
Inventories written down to net realisable value	**43**	-
Loss on partial divestment of a subsidiary	**-**	153
and credits:		
Interest income	**96**	46

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 the natural hedge arising from most of its revenue and expenses being denominated in US Dollar. In addition, the Group, where applicable, hedge using derivative instruments in respect of current and forecasted transactions.

PART B – OTHER EXPLANATORY NOTES (continued)

B5. TAX EXPENSE

In RM Mil	Individual quarter ended 31 March 2019	2018
Current tax expenses		
Current period tax	70	207
Under provision in respect of prior periods	-	2
	70	209
Deferred tax expenses		
Origination and reversal of temporary differences	10	20
	80	229

The Group's effective tax rates for the quarter ended 31 March 2019 and 2018 are 9% and 17% respectively, which are 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.

Included in the Group's effective tax rate of 17% for the corresponding quarter was a non-deductible expense relating to the impact of foreign exchange loss on shareholder loans pursuant to the divestment of 50% equity interest in a subsidiary.

B6. STATUS OF CORPORATE PROPOSALS

There were no new corporate proposals during the period under review since the last audited consolidated financial statements for the year ended 31 December 2018.

B7. TRADE AND OTHER RECEIVABLES

(a) Details of Group trade and other receivables

In RM Mil	As at 31.03.2019	As at 31.12.2018
Trade receivables:		
- Third party	1,497	1,700
- Joint ventures and associates	180	283
- Related companies	90	115
Other receivables	515	570
	2,282	2,668

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

PART B – OTHER EXPLANATORY NOTES (continued)

B7. TRADE AND OTHER RECEIVABLES (continued)

(b) Ageing analysis of trade receivables

In RM Mil	As at 31.03.2019	As at 31.12.2018
Current	**1,656**	2,027
Past due 1 to 30 days	**71**	66
Past due 31 to 60 days	**26**	5
Past due 61 to 90 days	**14**	-
	1,767	2,098

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.

B8. BORROWINGS

(a) Details of Group borrowings

		In USD Mil		*In RM Mil*
	As at 31.03.2019	As at 31.12.2018	As at 31.03.2019	As at 31.12.2018
Current				
Term loan - unsecured	**500**	500	**2,040**	2,072

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

The bridge loan bears floating interest of LIBOR + 0.4% per annum and repayment is upon procurement of project financing in phases as disclosed in note A11.

B9. DERIVATIVE FINANCIAL INSTRUMENTS

There were no changes to the Group's derivative financial instruments since the last audited consolidated financial statements for the year ended 31 December 2018, other than as disclosed in note A15.

B10. 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.

B11. MATERIAL LITIGATION

There was no pending material litigation since the last audited consolidated financial statements for the year ended 31 December 2018.

PART B – OTHER EXPLANATORY NOTES (continued)

B12. BASIC EARNINGS PER SHARE

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

	Individual quarter ended 31 March 2019	2018
In RM Mil		
Profit for the period attributable to shareholders of the Company	**802**	1,065
In millions of shares		
Number of ordinary shares issued	**8,000**	8,000
In sen		
Basic earnings per share	**10**	13

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.

B13. EXCHANGE RATES

USD/MYR	31.03.2019	Individual quarter ended 31.12.2018	31.03.2018
Average rate	**4.0905**	4.1721	3.9248
Closing rate	**4.0795**	4.1445	3.8620

By order of the Board

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

Kuala Lumpur
24 May 2019