PETRONAS CHEMICALS GROUP BERHAD

Quarterly Report

For Second Quarter Ended 30 June 2016

PETRONAS CHEMICALS GROUP BERHAD (459830-K)

QUARTERLY REPORT

FOR SECOND QUARTER ENDED 30 JUNE 2016

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 ended 30 June 2016 which should be read in conjunction with the accompanying explanatory notes on pages 7 to 19.

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

In RM Mil	Note	Individual quarter ended 30 June 2016	Individual quarter ended 30 June 2015	Cumulative quarter ended 30 June 2016	Cumulative quarter ended 30 June 2015
Revenue		3,202	3,305	6,349	6,445
Cost of revenue		(1,988)	(2,260)	(4,038)	(4,368)
Gross profit		1,214	1,045	2,311	2,077
Selling and distribution expenses		(171)	(149)	(333)	(295)
Administration expenses		(175)	(143)	(297)	(253)
Other expenses		(169)	(88)	(294)	(389)
Other income		44	179	247	529
Operating profit	B5	743	844	1,634	1,669
Net financing income/(costs)	B6	32	(8)	32	(15)
Share of (loss)/profit of equity-accounted joint ventures and associates, net of tax		8	17	13	42
Profit before taxation		783	853	1,679	1,696
Tax expense	B7	(250)	(215)	(475)	(386)
PROFIT FOR THE PERIOD		533	638	1,204	1,310
Other comprehensive income/(expenses)					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		98	15	(228)	102
Share of other comprehensive income/(expenses) of equity-accounted joint ventures and associates		30	20	(83)	62
Total other comprehensive income/(expenses) for the period		128	35	(311)	164
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		661	673	893	1,474
Profit attributable to:					
Shareholders of the Company		462	557	1,054	1,162
Non-controlling interests		71	81	150	148
PROFIT FOR THE PERIOD		533	638	1,204	1,310
Total comprehensive income attributable to:					
Shareholders of the Company		590	592	743	1,326
Non-controlling interests		71	81	150	148
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		661	673	893	1,474

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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

In RM Mil	Note	Individual quarter ended 30 June 2016	2015	Cumulative quarter ended 30 June 2016	2015
Basic earnings per share attributable to shareholders of the Company:					
Based on ordinary shares issued (sen)	**B18**	6	7	13	15

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In RM Mil	Note	As at 30.06.2016	As at 31.12.2015
ASSETS			
Property, plant and equipment		16,787	16,597
Investments in associates and joint ventures		1,178	1,280
Intangible assets		4	5
Long term receivables		49	8
Deferred tax assets		385	389
TOTAL NON-CURRENT ASSETS		18,403	18,279
Trade and other inventories		1,378	1,404
Trade and other receivables		1,604	1,692
Fund and other investments		-	622
Cash and cash equivalents		8,451	8,707
Tax recoverable		86	129
TOTAL CURRENT ASSETS		11,519	12,554
TOTAL ASSETS		29,922	30,833
EQUITY			
Share capital		800	800
Reserves		23,926	23,983
Total equity attributable to shareholders of the Company		24,726	24,783
Non-controlling interests		1,483	1,807
TOTAL EQUITY		26,209	26,590
LIABILITIES			
Deferred tax liabilities		795	814
Other long term liabilities and provisions		275	355
TOTAL NON-CURRENT LIABILITIES		1,070	1,169
Trade and other payables		2,301	2,902
Borrowings	B11	15	30
Current tax payables		327	142
TOTAL CURRENT LIABILITIES		2,643	3,074
TOTAL LIABILITIES		3,713	4,243
TOTAL EQUITY AND LIABILITIES		29,922	30,833

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company				
	Non-distributable				
In RM Mil	**Share Capital**	**Share Premium**	**Foreign Currency Translation Reserve**	**Merger Reserve**	**Other Reserves**
Cumulative quarter ended 30 June 2015					
At 1 January 2015	800	8,071	74	(204)	138
Foreign currency translation differences	-	-	102	-	-
Share of other comprehensive income of equity-accounted joint ventures and associates	-	-	62	-	-
Total other comprehensive income for the period	-	-	164	-	-
Profit for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	164	-	-
Redemption of Redeemable Preference Shares in a subsidiary	-	-	-	-	130
Dividends to shareholders of the Company	-	-	-	-	-
Dividends to non-controlling interests	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	130
Balance at 30 June 2015	800	8,071	238	(204)	268
Cumulative quarter ended 30 June 2016					
At 1 January 2016	800	8,071	436	(204)	487
Foreign currency translation differences	-	-	(228)	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	-	(83)
Total other comprehensive expenses for the period	-	-	(228)	-	(83)
Profit for the period	-	-	-	-	-
Total comprehensive expenses for the period	-	-	(228)	-	(83)
Redemption of Redeemable Preference Shares in a subsidiary	-	-	-	-	13
Dividends to shareholders of the Company	-	-	-	-	-
Dividends to non-controlling interests	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	13
Balance at 30 June 2016	800	8,071	208	(204)	417

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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)

	Attributable to shareholders of the Company			
	Distributable			
In RM Mil	**Retained Profits**	**Total**	**Non-controlling Interests**	**Total Equity**
Cumulative quarter ended 30 June 2015				
At 1 January 2015	13,843	22,722	1,755	24,477
Foreign currency translation differences	-	102	-	102
Share of other comprehensive income of equity-accounted joint ventures and associates	-	62	-	62
Total other comprehensive income for the period	-	164	-	164
Profit for the period	1,162	1,162	148	1,310
Total comprehensive income for the period	1,162	1,326	148	1,474
Redemption of Redeemable Preference Shares in a subsidiary	(130)	-	(111)	(111)
Dividends to shareholders of the Company	(640)	(640)	-	(640)
Dividends to non-controlling interests	-	-	(85)	(85)
Total transactions with shareholders	(770)	(640)	(196)	(836)
Balance at 30 June 2015	14,235	23,408	1,707	25,115
Cumulative quarter ended 30 June 2016				
At 1 January 2016	15,193	24,783	1,807	26,590
Foreign currency translation differences	-	(228)	-	(228)
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(83)	-	(83)
Total other comprehensive expenses for the period	-	(311)	-	(311)
Profit for the period	1,054	1,054	150	1,204
Total comprehensive income for the period	1,054	743	150	893
Redemption of Redeemable Preference Shares in a subsidiary	(13)	-	(11)	(11)
Dividends to shareholders of the Company	(800)	(800)	-	(800)
Dividends to non-controlling interests	-	-	(463)	(463)
Total transactions with shareholders	(813)	(800)	(474)	(1,274)
Balance at 30 June 2016	15,434	24,726	1,483	26,209

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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	Cumulative quarter ended 30 June 2016	2015
Cash receipts from customers	6,553	6,876
Cash paid to suppliers and employees	(4,661)	(5,040)
	1,892	1,836
Interest income from fund and other investments	146	144
Taxation paid	(272)	(344)
Cash flows from operating activities	1,766	1,636
Increase in investment in an associate	-	(191)
Dividends received from equity-accounted joint ventures and associates	32	55
Purchase of property, plant and equipment	(1,311)	(1,195)
Proceeds upon maturity of fund and other investments	622	-
Cash flows used in investing activities	(657)	(1,331)
Dividends paid to:		
- PETRONAS	(515)	(412)
- others (third parties)	(285)	(228)
- non-controlling interests of subsidiaries	(463)	(85)
Payment to non-controlling interests on redemption of shares	(11)	(111)
Repayment of:		
- finance lease liabilities	(28)	(14)
- revolving credit	(15)	-
Cash flows used in financing activities	(1,317)	(850)
Net cash flows used in operating, investing and financing activities	(208)	(545)
Effects of foreign currency translation differences	(4)	-
Net decrease in cash and cash equivalents	(212)	(545)
Net foreign exchange differences on cash held	(44)	40
Cash and cash equivalents at beginning of the period	8,707	9,807
Cash and cash equivalents at end of the period	8,451	9,302

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 2015 and the accompanying notes attached to the unaudited condensed consolidated financial statements.

Within the context of these unaudited condensed consolidated financial statements, the Group comprises the Company and its subsidiaries, and the Group's interest in joint ventures and associates as at and for the quarter ended 30 June 2016.

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 2015.

As of 1 January 2016, the Group have adopted the following MFRSs and amendments (collectively referred to as "pronouncements") which are effective for annual years beginning on or after 1 January 2016.

Effective for annual periods beginning on or after 1 January 2016

Amendments to MFRS 5	*Non-current Assets held for Sale and Discontinued Operations (Annual Improvements 2012 – 2014 Cycle)*
Amendments to MFRS 7	*Financial Instruments: Disclosures (Annual Improvements 2012 – 2014 Cycle)*
Amendments to MFRS 11	*Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
Amendments to MFRS 101	*Presentation of Financial Statements - Disclosure Initiative*
Amendments to MFRS 116 and MFRS 138	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to MFRS 119	*Employee Benefits (Annual Improvements 2012 – 2014 Cycle)*
Amendments to MFRS 127	*Separate Financial Statements: Equity Method in Separate Financial Statements*
Amendments to MFRS 134	*Interim Financial Reporting (Annual Improvements 2012 – 2014 Cycle)*

A3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The audited financial statements of PCG and its subsidiaries for the year ended 31 December 2015 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.

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

A5. EXCEPTIONAL ITEMS

There was no exceptional item during the quarter under review.

A6. MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates of the amounts reported in the most recent annual financial statements of PCG and its subsidiaries for the year ended 31 December 2015 that may have a material effect in the results of the quarter under review.

A7. DEBT AND EQUITY SECURITIES

There were no material issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the quarter under review.

A8. DIVIDEND PAID

During the period under review, the Company paid a second interim single tier dividend of 10 sen per ordinary share amounting to RM800 million in respect of the financial year ended 31 December 2015 to shareholders on 23 March 2016.

A9. OPERATING SEGMENTS

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

9.1 Revenue

	Cumulative quarter ended 30 June					
	2016	2015	2016	2015	2016	2015
In RM Mil	Third Parties		Inter-segment		Gross Total	
Olefins and Derivatives	**4,379**	4,444	**5**	5	**4,384**	4,449
Fertilisers and Methanol	**1,944**	1,979	**83**	80	**2,027**	2,059
Others	**26**	22	**20**	19	**46**	41
Total	**6,349**	6,445	**108**	104	**6,457**	6,549

9.2 Segment Profit for the Period[1]

	Cumulative quarter ended 30 June	
In RM Mil	2016	2015
Olefins and Derivatives	**773**	769
Fertilisers and Methanol	**411**	512
Others	**20**	29
Total	**1,204**	1,310

[1] Included within profit for the period for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM391 million (2015: RM401 million), RM258 million (2015: RM219 million) and RM9 million (2015: RM7 million) respectively.

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

A10. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

There were no revaluations of property, plant and equipment for the period under review. As at 30 June 2016, all property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

A11. SIGNIFICANT EVENT

On 14 April 2016, PCG announced the cancellation of the proposed elastomers project which are part of the Refinery and Petrochemicals Integrated Development (RAPID) project in Pengerang, Johor.

In line with the cancellation of the project, the Group has recognised a write-off on total assets during the quarter amounting to RM241 million (USD59 million).

Details of the project cancellation is as stated in a separate Bursa Announcement issued on 14 April 2016.

A12. CONTINGENCIES

There were no material contingent liabilities or contingent assets since the last consolidated statement of financial position as at 31 December 2015.

A13. CHANGES IN COMPOSITION OF THE GROUP

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

A14. CAPITAL COMMITMENTS

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

In RM Mil	**As at 30.6.2016**	**As at 31.12.2015**
Property, plant and equipment:		
Approved and contracted for	5,911	7,843
Approved but not contracted for	3,435	9,401
	9,346	17,244

The amount as at 30 June 2016 includes RM7,716 million (2015: RM14,666 million) relating to the development of petrochemical plants which are part of the RAPID project in Pengerang, Johor. The lower amount compared to 31 December 2015 was mainly due to cancellation of elastomers project (2015: RM5,155 million).

The amount as at 30 June 2016 also includes RM919 million (2015: RM1,458 million) for a new world scale fertiliser plant in Sipitang, Sabah.

A15. FAIR VALUE INFORMATION

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

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

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

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

Forward foreign exchange contracts

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

Finance lease liabilities

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

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

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

A15. FAIR VALUE INFORMATION (continued)

As at 30 June 2016
Fair value of financial instruments carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Total fair value
Financial liabilities				
Forward foreign exchange contracts	-	(390)	-	(390)

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	-	-	(160)	(160)	(160)

As at 31 December 2015
Fair value of financial instruments carried at fair value

In RM Mil	Level 1	Level 2	Level 3	Total fair value
Financial assets				
Forward foreign exchange contracts	-	9	-	9
Financial liabilities				
Forward foreign exchange contracts	-	(720)	-	(720)

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	-	-	(183)	(183)	(183)

PART B – OTHER EXPLANATORY NOTES

B1. REVIEW OF GROUP PERFORMANCE

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

	Individual quarter ended 30 June					
	2016	2015	2016	2015	2016	2015
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**3,202**	3,305	**2,136**	2,355	**1,092**	981
Profit after tax	**533**	638	**312**	405	**219**	222
EBITDA[2]	**1,204**	1,083	**867**	768	**373**	332

The Group recorded strong operational performance during the quarter, with higher plant utilisation of 95% compared to 78% in the corresponding quarter. This was driven by improved feedstock supplies and plant reliability as well as lower level of statutory turnaround activities.

Correspondingly, both production and sales volumes were higher.

Overall average product prices were lower in tandem with the sharp decline in crude oil price.

Group revenue decreased by RM103 million or 3% to RM3.2 billion against corresponding quarter as lower average product prices offset the impact of higher sales volume and stronger US Dollar.

EBITDA was higher by RM121 mil or 11% at RM1.2 billion on the back of higher sales volumes, particularly ethane-based products, and stronger US Dollar.

Profit after tax for the quarter, however, was lower by RM105 million or 16% at RM533 million mainly due to assets write-off amounting to RM241 million (USD59 million) in relation to the cancellation of elastomers project. Excluding the write-off, profit after tax would have been higher by RM136 million or 21% at RM774 million.

Olefins and Derivatives

The segment achieved higher plant utilisation of 93% compared to 84% in the corresponding quarter on the back of higher ethane supply which offset the impact of statutory turnaround at its aromatics plant during the quarter.

Production volume was higher, particularly intermediary products which were subsequently consumed by downstream facilities. Consequently, sales volume was slightly lower.

Average product prices were lower following sharp decline in crude oil price and subdued market demand.

Revenue decreased by RM219 million or 9% to RM2.1 billion as a result of lower sales volumes and average product prices.

EBITDA grew by RM99 million or 13% to RM867 million due to higher volumes of ethane-based products, which was further supported by stronger US Dollar.

[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)

Olefins and Derivatives (continued)

Profit after tax declined by RM93 million or 23% to RM312 million following assets write-off amounting to RM241 million (USD59 million) in relation to the cancellation of elastomers project in the current quarter. Excluding the write-off, profit after tax would have been higher by RM148 million or 37% at RM553 million.

Fertilisers and Methanol

Operationally, the segment recorded a significantly higher plant utilisation of 96% compared to 73% in the corresponding quarter on the back of higher methane supply at the Group's methanol facilities. In the corresponding quarter, the Group undertook a statutory turnaround at its Gurun urea facility.

Both production and sales volumes increased in line with plant utilisation.

Urea prices declined in the current quarter due to ample supply amidst softer demand in key markets while methanol prices were affected by weaker demand for methanol-based derivatives due to lower energy prices.

Revenue rose by RM111 million or 11% to RM1.1 billion as a result of higher sales volumes and stronger US Dollar, negated by lower average product prices.

Similarly, EBITDA increased by RM41 million or 12% to RM373 million. Profit after tax for the quarter is comparable, slightly lower by RM3 million or 1% at RM219 million.

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

					Cumulative quarter ended 30 June	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
In RM Mil		**Group**	**Olefins and Derivatives**		**Fertilisers and Methanol**	
Revenue	**6,349**	6,445	**4,384**	4,449	**2,027**	2,059
Profit after tax	**1,204**	1,310	**773**	769	**411**	512
EBITDA[3]	**2,350**	2,201	**1,675**	1,418	**711**	804

The Group recorded stronger operational performance against the corresponding period with higher plant utilisation of 94% compared to 84%. This was achieved on the back of significantly improved ethane and methane supplies despite statutory turnaround activities undertaken at its propylene and aromatics plants.

Correspondingly, both production and sales volumes were higher.

Product prices remained on a downward trend in tandem with the sharp decline in crude oil price.

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

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

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

Group revenue was slightly lower by RM96 million or 1% at RM6.3 billion compared to the corresponding period as a result of lower average product prices, negated by higher sales volumes and stronger US Dollar.

Despite lower revenue, EBITDA was higher by RM149 mil or 7% at RM2.4 billion mainly driven by higher sales volumes and stronger US Dollar.

Profit after tax for the period declined by RM106 million or 8% to RM1.2 billion following assets write-off amounting to RM241 million (USD59 million) in relation to the cancellation of elastomers project. Excluding the write-off, profit after tax would have been higher by RM135 million or 10% at RM1.4 billion.

Olefins and Derivatives

Operationally, the segment recorded higher plant utilisation of 95% compared to 89% in the corresponding period driven by higher ethane supply which offset the impact of statutory turnarounds undertaken at its propylene and aromatics plants during the period.

Production volume was higher in line with higher plant utilisation whilst sales volume was comparable as higher production included intermediary products which were subsequently consumed by downstream facilities.

Average product prices were affected by the sharp decline in crude oil price and subdued market demand.

Revenue declined by RM65 million or 1% to RM4.4 billion as a result of lower average product prices.

EBITDA was higher by RM257 million or 18% at RM1.7 billion on the back of higher sales volumes of ethane-based products, supported by stronger US Dollar.

Profit after tax for the period was slightly higher by RM4 million or 1% at RM773 million despite assets write-off amounting to RM241 million (USD59 million) in relation to the cancellation of elastomers project. Excluding the write-off, profit after tax would have been higher by RM245 million or 32% at RM1.0 billion.

Fertilisers and Methanol

The segment's operational performance improved with higher plant utilisation of 93% compared to 80% in the corresponding period, largely attributable to higher methane supply at the Group's methanol facilities. In the corresponding period, the Group undertook a statutory turnaround at its Gurun urea facility.

Consequently, both production and sales volumes increased.

Fertilisers and methanol prices were all lower compared to the corresponding period due to slower market demand.

Revenue declined slightly by RM32 million or 2% to RM2.0 billion as lower average product prices offset the impact of higher sales volumes.

Both EBITDA and profit after tax for the period were also lower by RM93 million or 12% at RM711 million and RM101 million or 20% at RM411 million respectively.

PART B – OTHER EXPLANATORY NOTES (continued)

B2. VARIATION OF RESULTS AGAINST THE PRECEDING QUARTER

In RM Mil	30 June 2016	31 March 2016
Revenue	3,202	3,147
Profit after tax	533	671
EBITDA[4]	1,204	1,146

The Group recorded higher plant utilisation of 95% compared to 92% in preceding quarter following better overall plant reliability coupled with higher methane and ethane supply. Both production and sales volumes increased accordingly with higher plant utilisation.

Product prices strengthened compared to the preceding quarter in tandem with crude oil price.

Group revenue was higher by RM55 million or 2% at RM3.2 billion, mainly due to higher sales volumes.

Group EBITDA increased by RM58 million or 5% at RM1.2 billion on the back of higher sales volumes and improved product spreads, mitigating the impact of weaker US Dollar.

Profit after tax for the quarter, however, was lower by RM138 million or 21% at RM533 million following assets write-off amounting to RM241 million (USD59 million) in relation to the cancellation of elastomers project. Excluding the write-off, profit after tax would be higher by RM103 million or 15% at RM774 million.

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. With improved plant maintenance programme and supplier relationship management, the Group aims to achieve better plant utilisation for 2016 compared to the previous year.

Olefins and Derivatives

The Group anticipates the market for olefins and derivatives to be stable given tight supply in the region amidst weak economic outlook and slow end-product demand.

Fertilisers and Methanol

The Group expects the segment's feedstock supply reliability for 2016 to improve with additional gas supply from upstream via a new pipeline.

Fertiliser market is expected to remain challenging in view of ample supply coupled with weaker demand.

Methanol price may also remain challenging as a result of weak crude oil prices.

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

PART B – OTHER EXPLANATORY NOTES (continued)

B4. PROFIT FORECAST OR PROFIT GUARANTEE

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

B5. OPERATING PROFIT

	Individual quarter ended		Cumulative quarter ended	
		30 June		30 June
In RM Mil	**2016**	**2015**	**2016**	**2015**
Included in operating profit are the following charges:				
Depreciation and amortisation	**331**	321	**658**	627
Loss on foreign exchange:				
- Realised	**17**	4	**84**	140
- Unrealised	**47**	26	**104**	59
Loss on unrealised forward exchange contract	**2**	56	**2**	187
Loss on disposal of property, plant and equipment	**4**	-	**4**	-
Property, plant and equipment written-off	**241**	-	**241**	-
and credits:				
Interest income	**63**	77	**135**	155
Other income	**2**	3	**5**	7
Gain on foreign exchange:				
- Realised	**28**	10	**102**	135
- Unrealised	**33**	89	**85**	231
Gain on unrealised forward exchange contract	**-**	-	**2**	1
Reversal of provisions for plant decommissioning and onerous contracts	**56**	-	**56**	-

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

B6. NET FINANCING INCOME/(COSTS)

	Individual quarter ended		Cumulative quarter ended	
		30 June		30 June
In RM Mil	**2016**	**2015**	**2016**	**2015**
Unwinding of discount factor for other long term liabilities and provisions	**-**	(8)	**(6)**	(15)
Unrealised (loss)/gain on forward exchange contract	**(61)**	-	**325**	-
Unrealised gain/(loss) on foreign exchange	**93**	-	**(287)**	-
	32	(8)	**32**	(15)

Unrealised loss/gain on forward exchange contract arise from forward exchange contracts entered in relation to loan due from a subsidiary.

PART B – OTHER EXPLANATORY NOTES (continued)

B7. TAX EXPENSE

In RM Mil	Individual quarter ended 30 June 2016	2015	Cumulative quarter ended 30 June 2016	2015
Current tax expenses				
Current period tax	**294**	225	**492**	427
Under/(Over) provision in respect of prior periods	**1**	-	**(2)**	-
	295	225	**490**	427
Deferred tax expenses				
Origination and reversal of temporary differences	**(45)**	(12)	**(14)**	(41)
(Over)/Under provision in respect of prior periods	**-**	2	**(1)**	-
	(45)	(10)	**(15)**	(41)
	250	215	**475**	386

The Group's effective tax rates for the period ended 30 June 2016 and 2015 are 28% and 23% respectively. The higher effective tax rate for the period ended 30 June 2016 is mainly due to the write-off on assets relating to the cancellation of elastomers project, which is non-deductible for tax purposes.

B8. SALES OF UNQUOTED INVESTMENTS/PROPERTIES

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

B9. QUOTED SECURITIES

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

B10. STATUS OF CORPORATE PROPOSALS

During the first quarter, the Board approved the merger of two wholly-owned subsidiaries, namely PRPC Polymers Sdn. Bhd. (PRPC Polymers) and PRPC Glycols Sdn. Bhd. (PRPC Glycols). The merger will be undertaken via transfer of assets from PRPC Glycols to PRPC Polymers and will result in enhanced operational efficiency.

The restructuring is currently on-going and the Group expects to complete the exercise by the second half of 2016.

B11. BORROWINGS

The details of the Group borrowings are as follows:

In RM Mil	As at 30.6.2016	As at 31.12.2015
Revolving credits - unsecured	**15**	30

B12. DERIVATIVE FINANCIAL INSTRUMENTS

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

B13. FAIR VALUE CHANGES OF FINANCIAL LIABILITIES

The Group does not have any financial liabilities that are measured at fair value (other than derivative financial instruments) for the quarter ended 30 June 2016.

PART B – OTHER EXPLANATORY NOTES (continued)

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

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

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

In RM Mil	As at 30.6.2016	As at 31.12.2015
Total retained profits/(losses) of the Group		
Realised	19,092	19,348
Unrealised	(476)	(518)
	18,616	18,830
Total share retained profits/(losses) from associates and joint ventures		
Realised	182	199
Unrealised	(23)	(19)
	159	180
Total realised and unrealised	18,775	19,010
Less: Consolidation adjustments	(3,341)	(3,817)
Total group retained profits as per consolidated account	15,434	15,193

B15. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 30 June 2016.

B16. MATERIAL LITIGATION

There is no pending material litigation since the last audited financial statements of PCG and its subsidiaries for the year ended 31 December 2015.

B17. DIVIDENDS

The Directors of the Company have declared an interim single tier dividend of 7 sen per ordinary share, amounting to RM560 million to shareholders in respect of the financial year ending 31 December 2016 (2015: first interim dividend for the year ended 31 December 2015 of 8 sen per share, amounting to RM 640 million).

The dividends are payable on 7 September 2016 to depositors registered in the Records of Depositors at the close of business on 24 August 2016.

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 24 August 2016 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)

B18. BASIC EARNINGS PER SHARE

In RM Mil	Individual quarter ended 30 June 2016	2015	Cumulative quarter ended 30 June 2016	2015
Profit for the period attributable to shareholders of the Company	**462**	557	**1,054**	1,162
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)	**6**	7	**13**	15

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.

B19. EXCHANGE RATES

	Individual quarter ended			Cumulative quarter ended		
USD/MYR	30.6.2016	31.3.2016	30.6.2015	30.6.2016	31.12.2015	30.6.2015
Average rate	**4.0089**	4.2029	3.6574	**4.1057**	3.9032	3.6369
Closing rate	**4.0180**	3.9330	3.7745	**4.0180**	4.2940	3.7745

By order of the Board

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

Kuala Lumpur
9 August 2016