PETRONAS CHEMICALS GROUP BERHAD
Quarterly Report

For Second Quarter Ended 30 June 2019

PETRONAS CHEMICALS GROUP BERHAD (459830-K)

QUARTERLY REPORT

FOR SECOND QUARTER ENDED 30 JUNE 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 30 June 2019 which should be read in conjunction with the accompanying explanatory notes on pages 6 to 23.

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

In RM Mil	Note	Individual quarter ended 30 June 2019	Individual quarter ended 30 June 2018 Restated	Cumulative quarter ended 30 June 2019	Cumulative quarter ended 30 June 2018 Restated
Revenue		4,337	4,733	8,467	9,684
Cost of revenue		(2,816)	(2,980)	(5,675)	(6,080)
Gross profit		1,521	1,753	2,792	3,604
Selling and distribution expenses		(234)	(200)	(451)	(404)
Administration expenses		(182)	(157)	(378)	(365)
Other expenses		(7)	(1)	(16)	(180)
Other income		160	123	263	212
Operating profit	B4	1,258	1,518	2,210	2,867
Financing costs		(12)	(4)	(21)	(8)
Share of (loss)/profit of equity-accounted joint ventures and associates, net of tax		(23)	8	(47)	25
Profit before taxation		1,223	1,522	2,142	2,884
Tax expense	B5	(111)	(72)	(217)	(257)
PROFIT FOR THE PERIOD		1,112	1,450	1,925	2,627
Other comprehensive income/(expenses)					
Items that may be reclassified subsequently to profit or loss					
Foreign currency translation differences		99	190	4	96
Share of other comprehensive income/(expenses) of equity-accounted joint ventures and associates		40	33	14	(13)
Total other comprehensive income for the period		139	223	18	83
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,251	1,673	1,943	2,710
Profit attributable to:					
Shareholders of the Company		1,120	1,442	1,922	2,577
Non-controlling interests		(8)	8	3	50
PROFIT FOR THE PERIOD		1,112	1,450	1,925	2,627
Total comprehensive income attributable to:					
Shareholders of the Company		1,259	1,665	1,940	2,660
Non-controlling interests		(8)	8	3	50
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,251	1,673	1,943	2,710
Basic earnings per share attributable to shareholders of the Company:					
Based on ordinary shares issued (sen)	B13	14	18	24	32

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 30.06.2019	As at 31.12.2018 Restated
ASSETS			
Property, plant and equipment		19,872	19,080
Prepaid lease payments		-	28
Investments in joint ventures and associates		1,143	1,232
Long term receivables		-	29
Deferred tax assets		223	237
TOTAL NON-CURRENT ASSETS		21,238	20,606
Trade and other inventories		1,567	1,698
Trade and other receivables	B7	2,208	2,668
Tax recoverable		47	64
Cash and cash equivalents		12,812	12,329
TOTAL CURRENT ASSETS		16,634	16,759
TOTAL ASSETS		37,872	37,365
EQUITY			
Share capital		8,871	8,871
Reserves		21,175	20,682
Total equity attributable to shareholders of the Company		30,046	29,553
Non-controlling interests		636	695
TOTAL EQUITY		30,682	30,248
LIABILITIES			
Lease liabilities		602	-
Deferred tax liabilities		1,355	1,320
Other long term liabilities and provisions		489	583
TOTAL NON-CURRENT LIABILITIES		2,446	1,903
Borrowings	B8	2,071	2,072
Lease liabilities		63	-
Trade and other payables		2,416	3,001
Current tax payables		194	141
TOTAL CURRENT LIABILITIES		4,744	5,214
TOTAL LIABILITIES		7,190	7,117
TOTAL EQUITY AND LIABILITIES		37,872	37,365
Net assets per share attributable to the shareholders of the Company (RM)		3.76	3.69

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**
Cumulative quarter ended 30 June 2019				
At 1 January 2019, restated	**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	-	**4**	-	-
Share of other comprehensive income of equity-accounted joint ventures and associates	-	-	-	**14**
Total other comprehensive income for the period	-	**4**	-	**14**
Profit for the period	-	-	-	-
Total comprehensive income for the period	-	**4**	-	**14**
Additional shares issued to a non-controlling interest	-	-	-	-
Redemption of Redeemable Preference Shares in subsidiaries	-	-	-	**238**
Dividends to shareholders of the Company	-	-	-	-
Dividends to non-controlling interests	-	-	-	-
Total transactions with owners of the Group	-	-	-	**238**
Balance at 30 June 2019	**8,871**	**(73)**	**(204)**	**856**
Cumulative quarter ended 30 June 2018				
At 1 January 2018	8,871	(244)	(204)	461
- Effect of change in accounting policy	-	-	-	-
Balance at 1 January 2018, restated	8,871	(244)	(204)	461
Foreign currency translation differences	-	96	-	-
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	-	-	(13)
Total other comprehensive income/(expenses) for the period	-	96	-	(13)
Profit for the period	-	-	-	-
Total comprehensive income/(expenses) for the period	-	96	-	(13)
Redemption of Redeemable Preference Shares in subsidiaries	-	-	-	87
Additional equity interest in subsidiaries	-	-	-	-
Dividends to shareholders of the Company	-	-	-	-
Total transactions with owners of the Group	-	-	-	87
Balance at 30 June 2018	8,871	(148)	(204)	535

continue to next page

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

In RM Mil	*Attributable to shareholders of the Company* *Distributable* Retained Profits	Total	Non-controlling Interests	Total Equity
Cumulative quarter ended 30 June 2019				
At 1 January 2019, restated	20,359	29,553	695	30,248
- Effect of the adoption of MFRS 16	(7)	(7)	-	(7)
At 1 January 2019, restated	20,352	29,546	695	30,241
Foreign currency translation differences	-	4	-	4
Share of other comprehensive income of equity-accounted joint ventures and associates	-	14	-	14
Total other comprehensive income for the period	-	18	-	18
Profit for the period	1,922	1,922	3	1,925
Total comprehensive income for the period	1,922	1,940	3	1,943
Additional shares issued to a non-controlling interest	-	-	1	1
Redemption of Redeemable Preference Shares in subsidiaries	(238)	-	-	-
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	(1,678)	(1,440)	(62)	(1,502)
Balance at 30 June 2019	20,596	30,046	636	30,682
Cumulative quarter ended 30 June 2018				
At 1 January 2018	18,981	27,865	1,003	28,868
- Effect of change in accounting policy	(742)	(742)	-	(742)
Balance at 1 January 2018, restated	18,239	27,123	1,003	28,126
Foreign currency translation differences	-	96	-	96
Share of other comprehensive expenses of equity-accounted joint ventures and associates	-	(13)	-	(13)
Total other comprehensive income for the period	-	83	-	83
Profit for the period	2,577	2,577	50	2,627
Total comprehensive income for the period	2,577	2,660	50	2,710
Redemption of Redeemable Preference Shares in subsidiaries	(87)	-	-	-
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	(1,535)	(1,448)	(386)	(1,834)
Balance at 30 June 2018	19,281	28,335	667	29,002

continued from previous page

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

In RM Mil	Cumulative quarter ended 30 June 2019	2018 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**2,142**	2,884
Adjustments for:		
- Depreciation and amortisation	**812**	811
- Financing costs	**21**	8
- Interest income	**(188)**	(127)
- Loss on partial divestment of a subsidiary	**-**	153
- Share of loss/(profit) of equity-accounted joint ventures and associates, net of tax	**47**	(25)
- Other non-cash items	**(71)**	(64)
Operating profit before changes in working capital	**2,763**	3,640
Change in trade and other inventories	**139**	88
Change in trade and other receivables	**461**	(133)
Change in trade and other payables	**(526)**	(162)
Cash generated from operations	**2,837**	3,433
Interest income received	**182**	121
Taxation paid	**(94)**	(245)
Net cash generated from operating activities	**2,925**	3,309
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from joint ventures and associates	**56**	53
Proceeds from partial divestment of equity and shareholder loans in a subsidiary, net of cash divested	**-**	969
Purchase of property, plant and equipment	**(1,010)**	(1,560)
Net cash used in investing activities	**(954)**	(538)
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	**-**	(634)
Proceeds from shares issued to a non-controlling interest	**1**	-
Repayment of lease liabilities	**(58)**	(28)
Net cash (used in)/generated from financing activities	**(1,560)**	2,024
Net cash flows from operating, investing and financing activities	**411**	4,795
Effect of foreign currency translation differences	**75**	(60)
Net increase in cash and cash equivalents	**486**	4,735
Net foreign exchange differences on cash held	**(3)**	(3)
Cash and cash equivalents at beginning of the period	**12,329**	6,674
Cash and cash equivalents at end of the period	**12,812**	11,406

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 ended 30 June 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 MFRSs, and amendments to MFRS 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)

A2. SIGNIFICANT ACCOUNTING POLICIES (continued)

On 13 August 2019, the Group changed its accounting policy on investment tax credit. In the previous financial years, all tax incentives were recognised as tax credits. Consequently, all tax incentives granted were recognised in profit or loss, and any untilised portion of the tax credits were recognised as deferred tax asset (subject to availability of future taxable profits). There is no accounting standard that provides guidance on investment tax credits. In the current year, the Group decided to revisit and change the accounting policy on investment tax credits where tax incentives with the features similar to government grant are recognised as deferred tax assets (subject to availability of future taxable profits) with a corresponding deferred income. The deferred income is amortised to profit or loss as other income on a systematic basis over the periods in which the related costs, for which the tax incentives are intended to compensate, are expensed to profit or loss. The Group continues to account for tax incentives that do not have features similar to government grant as tax credits.

The measurement of certain tax incentives using government grant method provides more relevant and fair information to the financial statements users. In addition, the accounting method will reflect the substance of the tax incentives.

This change in accounting policy has been made retrospectively and the impact on comparative information are disclosed in Appendix 1. There is no material impact on the Group's consolidated profit or loss for the current period.

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.

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

A7. DEBT AND EQUITY SECURITIES

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

9.1 Revenue

	Cumulative quarter ended 30 June					
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
In RM Mil	**Third Parties**		**Inter-segment**		**Gross Total**	
Olefins and Derivatives	**5,098**	5,901	**-**	8	**5,098**	5,909
Fertilisers and Methanol	**3,344**	3,755	**-**	78	**3,344**	3,833
Others	**25**	28	**24**	24	**49**	52
Total	**8,467**	9,684	**24**	110	**8,491**	9,794

9.2 Segment Profit[1]

	Cumulative quarter ended 30 June	
In RM Mil	**2019**	**2018**
Olefins and Derivatives	**894**	1,431
Fertilisers and Methanol	**1,045**	1,343
Others	**(14)**	(147)
Total	**1,925**	2,627

[1] Included within profit for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM392 million (2018: RM396 million), RM406 million (2018: RM404 million) and RM14 million (2018: RM11 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 2019, all property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

A11. SIGNIFICANT EVENTS

i) On 1 April 2019, the Company 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 the Company.

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 statement of financial position as at 31 December 2018.

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 30.06.2019**	**As at 31.12.2018**
Property, plant and equipment:		
Approved and contracted for	931	1,028
Approved but not contracted for	755	1,438
	1,686	2,466
Investment in shares:		
Approved and contracted for	758	-
Total	2,444	2,466

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

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.

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

As at 30 June 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	-	2	-	2	781
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(4)	-	(4)	(665)

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 30 June					
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
In RM Mil	**Group**		**Olefins and Derivatives**		**Fertilisers and Methanol**	
Revenue	**4,337**	4,733	**2,349**	2,754	**1,976**	2,002
Profit after tax	**1,112**	1,450	**413**	693	**682**	729
EBITDA[2]	**1,521**	1,811	**649**	945	**913**	878

PCG Group recorded plant utilisation of 100% which had improved from the corresponding quarter of 95%, mainly due to better plant performance at its methanol and PDH plants. Correspondingly, production and sales volumes increased.

Overall average products prices for the Group decreased from the corresponding quarter in tandem with declining crude oil price and softer market demand.

Revenue was lower by RM396 million or 8% at RM4.3 billion largely due to lower product prices partially offset by higher sales volume and the weakening of Ringgit Malaysia against US Dollar.

EBITDA decreased by RM290 million or 16% at RM1.5 billion in line with lower revenue. Profit after tax also reduced by RM338 million or 23% at RM1.1 billion following lower EBITDA and higher tax expense.

Olefins and Derivatives

The segment recorded higher plant utilisation of 97% compared to 88% in the corresponding quarter primarily contributed by improved plant performance. Production volume increased following better plant performance. However, sales volume is comparable due to inventory build up in preparation for plant statutory turnaround activity in the upcoming quarter.

Average product prices for the segment declined as crude oil prices decreased coupled with softer market demand.

Revenue was lower by RM405 million or 15% at RM2.3 billion as a result of lower product prices and sales volume, partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA for the segment decreased by RM296 million or 31% at RM649 million mainly due to lower revenue. Profit after tax was also lower by RM280 million or 40% at RM413 million in line 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 (continued)

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 better with plant utilisation of 100% compared to 99% in the corresponding quarter. Production and sales volumes were higher in line with higher plant utilisation.

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

The segment's revenue slightly decreased by RM26 million or 1% at RM2.0 billion due to decline in product prices, partially offset by higher sales volume and the weakening of Ringgit Malaysia against US Dollar.

EBITDA increased by RM35 million or 4% at RM913 million mainly due to lower operating expenditure. Profit after tax decreased by RM47 million or 6% at RM682 million following higher tax expense.

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

	Cumulative quarter ended 30 June					
	2019	2018	2019	2018	2019	2018
In RM Mil	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	**8,467**	9,684	**5,098**	5,909	**3,344**	3,833
Profit after tax	**1,925**	2,627	**893**	1,431	**1,045**	1,343
EBITDA[3]	**2,783**	3,651	**1,382**	2,051	**1,500**	1,657

The Group's plant utilisation was at 99%, slightly higher than 98% in the corresponding period. Production volume increased following better plant performance but sales volume declined. Sales volume in the corresponding period was relatively higher primarily due to product drawdown from inventory.

Overall average product prices were lower than corresponding period in tandem with lower crude oil price.

Revenue was lower by RM1.2 billion or 13% at RM8.5 billion largely due to lower product prices and sales volume, partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA was lower by RM868 million or 24% at RM2.8 billion in line with lower revenue and higher operating expenditure relating to maintenance activities. Profit after tax also decreased by RM702 million or 27% at RM1.9 billion following lower EBITDA, partially offset by lower tax expense. In addition, there was an impact of foreign exchange loss on the Company shareholder loans pursuant to the divestment of 50% equity interest in a subsidiary in the corresponding period.

[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.

PETRONAS

PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

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

Olefins and Derivatives

Plant utilisation increased from 95% in the corresponding period to 98% in the current year primarily due to lower level of maintenance activities, resulting in higher production volumes. However, sales volume is slightly lower due to inventory build up in preparation for plant statutory turnaround activity in the upcoming quarter.

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

Revenue decreased by RM811 million or 14% at RM5.1 billion largely attributable to lower product prices and sales volume, partially negated by the weakening of Ringgit Malaysia against US Dollar.

EBITDA was lower by RM669 million or 33% at RM1.4 billion in line with lower revenue. Profit after tax also decreased by RM538 million or 38% at RM893 million, partially offset by lower tax expense.

Fertilisers and Methanol

Plant utilisation for the segment remains comparable at 99%. However, production and sales volumes decreased mainly for methanol due to maintenance activities at the methanol plants during the period.

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

The segment recorded lower revenue by RM489 million or 13% at RM3.3 billion mainly due to lower prices and sales volume, partially offset by the weakening of Ringgit Malaysia against US Dollar.

EBITDA was lower by RM157 million or 9% at RM1.5 billion following lower revenue and higher operating expenditure relating to maintenance activities. Profit after tax also decreased from the corresponding year by RM298 million or 22% at RM1.0 billion in line with lower EBITDA.

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 30 June 2019	31 March 2019
Revenue	**4,337**	4,130
Profit after tax	**1,112**	813
EBITDA[4]	**1,521**	1,262

The Group's plant utilisation improved from 95% to 100% primarily due to lower level of maintenance activities undertaken in the current quarter. Production and sales volumes increased on the back of better plant utilisation.

Overall average product prices were lower despite higher crude oil price, due to oversupply in the market and weak demand.

Despite lower product prices, revenue increased by RM207 million or 5% at RM4.3 billion on the back of higher sales volume and the weakening of Ringgit Malaysia against US Dollar.

EBITDA was higher by RM259 million or 21% at RM1.5 billion in tandem with higher revenue. Profit after tax increased by RM299 million or 37% at RM1.1 billion contributed by unrealised foreign exchange gain arising from its shareholder loans.

(d) Highlight on consolidated statement of financial position

In RM Mil	As at 30.06.2019	As at 31.12.2018
Total assets	**37,872**	37,365
Total equity	**30,682**	30,248
ROE (%)	**13.6**	16.1

The Group's total assets were higher by RM507 million or 1% at RM37.9 billion. This was primarily due to the increase in property, plant and equipment in relation to the capital investment in the petrochemicals projects within PIC. Additionally, cash and cash equivalent increased by RM483 million or 4% at RM12.8 billion contributed by profit generated during the period, partially offset by dividend payment to shareholders. The increase in total assets was partially offset by reduction in trade and other receivables due to lower revenue and realisation of other receivables.

Total equity was also higher by RM434 million or 1% at RM30.7 billion largely attributable to profit generated during the period which was partially offset by dividend payments to shareholders.

[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	Cumulative quarter ended 30 June 2019	2018
Net cash generated from operating activities	**2,925**	3,309
Net cash used in investing activities	**(954)**	(538)
Net cash generated (used in)/from financing activities	**(1,560)**	2,024

Net cash generated from operating activities decreased by RM384 million or 12% at RM2.9 billion primarily contributed by the lower profit generated and changes in working capital during the period.

Net cash used in investing activities was higher by RM416 million or 77% at RM954 million mainly attributable to proceeds from divestment of 50% equity interest in a subsidiary in the corresponding period, partially offset by lower capital investment in petrochemicals projects within PIC.

There was net cash used in from financing activities of RM1.6 billion mainly 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 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 product prices for Olefins and Derivatives segment to stabilise in the coming quarter.

Fertilisers and Methanol

The Group expects that Fertiliser and Methanol product prices to also stabilise.

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 30 June 2019	2018	Cumulative quarter ended 30 June 2019	2018
Included in operating profit are the following charges:				
Depreciation and amortisation	**405**	400	**812**	811
Loss on partial divestment of a subsidiary	**-**	-	**-**	153
Inventories written down to net realisable value	**(29)**	3	**14**	3
and credits:				
Interest income	**92**	81	**188**	127
Amortisation of deferred income	**27**	27	**53**	53
Net gain on foreign exchange	**37**	12	**14**	-

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.

PART B – OTHER EXPLANATORY NOTES (continued)

B5. TAX EXPENSE

In RM Mil	Individual quarter ended 30 June 2019	2018	Cumulative quarter ended 30 June 2019	2018
Current tax expenses				
Current period tax	99	105	168	312
Under provision in respect of prior periods	-	-	-	2
	99	105	168	314
Deferred tax expenses				
Origination and reversal of temporary differences	12	(42)	49	(66)
Under provision in respect of prior periods	-	9	-	9
	12	(33)	49	(57)
	111	72	217	257

The Group's effective tax rates for the individual and cumulative quarters ended 30 June 2019 are 9% and 10% 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 9% for the corresponding cumulative 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 was no new corporate proposal 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 30.06.2019	As at 31.12.2018
Trade receivables:		
- Third party	1,553	1,700
- Joint ventures and associates	226	283
- Related companies	126	115
Other receivables	303	570
	2,208	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 30.06.2019**	**As at 31.12.2018**
Current	**1,813**	2,027
Past due 1 to 30 days	**93**	66
Past due 31 to 60 days	**-**	5
	1,906	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 30.06.2019	**As at 31.12.2018**	**As at 30.06.2019**	**As at 31.12.2018**
Current				
Term loan - unsecured	**500**	500	**2,071**	2,072

The term loan relates to the procurement of a bridge loan by the Group via its joint operation company, PPC, 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. DIVIDENDS

The Directors of the Company have declared an interim single tier dividend of 11 sen per ordinary share, amounting to RM880 million in respect of the financial year ending 31 December 2019 (2018: 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).

The dividends are payable on 13 September 2019 to depositors registered in the Records of Depositors at the close of business on 28 August 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 28 August 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.

B13. 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 30 June		Cumulative quarter ended 30 June	
	2019	**2018**	**2019**	**2018**
In RM Mil				
Profit for the period attributable to shareholders of the Company	**1,120**	1,442	**1,922**	2,577
In millions of shares				
Number of ordinary shares issued	**8,000**	8,000	**8,000**	8,000
In sen				
Basic earnings per share	**14**	18	**24**	32

As at the date of the statement of financial position, the Company does not have any instruments which may have a dilutive impact on the basic earnings per share.

PART B – OTHER EXPLANATORY NOTES (continued)

B14. EXCHANGE RATES

	Individual quarter ended			Cumulative quarter ended		
USD/MYR	**30.06.2019**	**31.03.2019**	**30.06.2018**	**30.06.2019**	**31.12.2018**	**30.06.2018**
Average rate	**4.1481**	4.0905	3.9487	**4.1193**	4.0347	3.9367
Closing rate	**4.1415**	4.0795	4.0455	**4.1415**	4.1445	4.0455

By order of the Board

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

Kuala Lumpur
13 August 2019

APPENDIX 1 – IMPACT OF CHANGE IN ACCOUNTING POLICY

a) Reconciliation of consolidated statement of profit or loss and other comprehensive income for individual quarter ended 30 June 2018[1]

In RM Mil	As previously reported	Effect of change in accounting policy	As restated
Other income	96	27	123
Operating profit	1,491	27	1,518
Profit before taxation	1,495	27	1,522
Tax expense / (credit)	(115)	43	(72)
PROFIT FOR THE PERIOD	1,380	70	1,450
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,603	70	1,673
Profit attributable to shareholders of the Company	1,372	70	1,442
Total comprehensive income attributable to shareholders of the Company	1,595	70	1,665

b) Reconciliation of consolidated statement of profit or loss and other comprehensive income for cumulative quarter ended 30 June 2018[1]

In RM Mil	As previously reported	Effect of change in accounting policy	As restated
Other income	159	53	212
Operating profit	2,814	53	2,867
Profit before taxation	2,831	53	2,884
Tax expense / (credit)	(344)	87	(257)
PROFIT FOR THE PERIOD	2,487	140	2,627
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,570	140	2,710
Profit attributable to shareholders of the Company	2,437	140	2,577
Total comprehensive income attributable to shareholders of the Company	2,520	140	2,660

[1] An extract of unaudited condensed consolidated financial statements of profit or loss and other comprehensive income on the affected lines.

APPENDIX 1 – IMPACT OF CHANGE IN ACCOUNTING POLICY (continued)

c) Reconciliation of consolidated statement of financial position as at 31 December 2018

In RM Mil	As previously reported	Effect of change in accounting policy	As restated
ASSETS	37,365	-	37,365
TOTAL ASSETS	37,365	-	37,365
EQUITY			
Share Capital	8,871	-	8,871
Reserves			
Retained Profits			
Balance as at 1 January 2018	18,981	(742)	18,239
Total comprehensive income for the year	4,979	(184)	4,795
Total transactions with owner of the Group	(2,675)	-	(2,675)
Balance as at 31 December 2018	21,285	(926)	20,359
Other reserves	323	-	323
Total equity attributable to shareholders of the Group	30,479	(926)	29,553
Non-controlling interests	695	-	695
TOTAL EQUITY	31,174	(926)	30,248
LIABILITIES			
Deferred tax liabilities	919	401	1,320
Other long term liabilities and provisions	163	420	583
TOTAL NON-CURRENT LIABILITIES	1,082	821	1,903
Trade and other payables	2,896	105	3,001
Other current liabilities	2,213	-	2,213
TOTAL CURRENT LIABILITIES	5,109	105	5,214
TOTAL LIABILITIES	6,191	926	7,117
TOTAL EQUITY AND LIABILITIES	37,365	-	37,365

APPENDIX 1 – IMPACT OF CHANGE IN ACCOUNTING POLICY (continued)

d) Reconciliation of consolidated statement of cash flows as at 30 June 2018

In RM Mil	As previously reported	Effect of change in accounting policy	As restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation	2,831	53	2,884
Adjustments for:			
Other non-cash items	(11)	(53)	(64)
Other adjustments	820		820
Operating profit before changes in working capital	3,640	-	3,640
Changes in working capital	(207)	-	(207)
Cash generated from operations	3,433	-	3,433
Interest income received	121	-	121
Taxation paid	(245)	-	(245)
Net cash generated from operating activities	3,309	-	3,309
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	(538)	-	(538)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	2,024	-	2,024
Net cash flows from operating, investing and financing activities	4,795	-	4,795
Effect of foreign currency translation differences	(60)	-	(60)
Net increase in cash and cash equivalents	4,735	-	4,735
Net foreign exchange differences on cash held	(3)	-	(3)
Cash and cash equivalents at beginning of the period	6,674		6,674
Cash and cash equivalents at end of the period	11,406	-	11,406