



PETRONAS CHEMICALS GROUP BERHAD

Quarterly Report

For Second Quarter Ended 30 June 2020



QUARTERLY REPORT

FOR SECOND QUARTER ENDED 30 JUNE 2020



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 2020 which should be read in conjunction with the accompanying explanatory notes on pages 6 to 18.

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

In RM Mil	Note	Individual quarter ended 30 June		Cumulative quarter ended 30 June	
		2020	2019	2020	2019
Revenue		3,178	4,337	7,069	8,467
Cost of revenue		(2,458)	(2,816)	(5,596)	(5,675)
Gross profit		720	1,521	1,473	2,792
Selling and distribution expenses		(246)	(234)	(490)	(451)
Administration expenses		(184)	(182)	(371)	(378)
Other expenses		(47)	(7)	(6)	(16)
Other income		82	160	325	263
Operating profit	B4	325	1,258	931	2,210
Financing costs		(4)	(12)	(10)	(21)
Share of loss after tax of equity-accounted joint ventures and associates		(30)	(23)	(62)	(47)
Profit before taxation		291	1,223	859	2,142
Tax expense	B5	(106)	(111)	(181)	(217)
PROFIT FOR THE PERIOD		185	1,112	678	1,925
Other comprehensive (expenses)/income					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Foreign currency translation differences		(60)	99	405	4
Share of other comprehensive income of equity-accounted joint ventures and associates		5	40	59	14
Total other comprehensive (expenses)/income for the period		(55)	139	464	18
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		130	1,251	1,142	1,943
Profit/(loss) attributable to:					
Shareholders of the Company		186	1,118	692	1,918
Non-controlling interests		(1)	(6)	(14)	7
PROFIT FOR THE PERIOD		185	1,112	678	1,925
Total comprehensive income/(expenses) attributable to:					
Shareholders of the Company		130	1,257	1,155	1,936
Non-controlling interests		-	(6)	(13)	7
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		130	1,251	1,142	1,943
Basic earnings per share attributable to shareholders of the Company:					
Based on ordinary shares issued (sen)	B13	2	14	9	24

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.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In RM Mil</i>	Note	As at 30.06.2020	As at 31.12.2019
ASSETS			
Property, plant and equipment		20,831	20,482
Investments in joint ventures and associates		1,028	1,058
Intangible assets		626	584
Deferred tax assets		918	971
TOTAL NON-CURRENT ASSETS		23,403	23,095
Trade and other inventories		1,743	1,658
Trade and other receivables	B7	1,620	1,994
Tax recoverable		27	71
Cash and cash equivalents		12,792	12,045
TOTAL CURRENT ASSETS		16,182	15,768
TOTAL ASSETS		39,585	38,863
EQUITY			
Share capital		8,871	8,871
Reserves		21,657	21,062
Total equity attributable to shareholders of the Company		30,528	29,933
Non-controlling interests		596	605
TOTAL EQUITY		31,124	30,538
LIABILITIES			
Borrowings		2,120	1,875
Lease liabilities		827	627
Deferred tax liabilities		885	906
Other long term liabilities and provisions		1,661	1,699
TOTAL NON-CURRENT LIABILITIES		5,493	5,107
Borrowings	B8	120	-
Lease liabilities		71	78
Trade and other payables		2,593	3,063
Current tax payables		184	77
TOTAL CURRENT LIABILITIES		2,968	3,218
TOTAL LIABILITIES		8,461	8,325
TOTAL EQUITY AND LIABILITIES		39,585	38,863
Net assets per share attributable to shareholders of the Company (RM)		3.82	3.74

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.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Attributable to shareholders of the Company</i>			
	<i>Non-distributable</i>			
<i>In RM Mil</i>	Share Capital	Foreign Currency Translation Reserve	Merger Reserve	Other Reserves
Cumulative quarter ended 30 June 2020				
At 1 January 2020	8,871	(185)	(204)	987
Foreign currency translation differences	-	404	-	-
Share of other comprehensive income of equity-accounted joint ventures and associates	-	-	-	59
Total other comprehensive income for the period	-	404	-	59
Profit/(loss) for the period	-	-	-	-
Total comprehensive income for the period	-	404	-	59
Additional shares issued to a non-controlling interest	-	-	-	-
Dividends to shareholders of the Company (note A8)	-	-	-	-
Total transactions with owners of the Group	-	-	-	-
Balance at 30 June 2020	8,871	219	(204)	1,046
Cumulative quarter ended 30 June 2019				
At 1 January 2019	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

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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.

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FOR SECOND QUARTER ENDED 30 JUNE 2020



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In RM Mil</i>	Cumulative quarter ended	
	2020	30 June 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	859	2,142
Adjustments for:		
- Depreciation and amortisation	828	812
- Financing costs	10	21
- Interest income	(99)	(188)
- Share of loss after tax of equity-accounted joint ventures and associates	62	47
- Other non-cash items	(217)	(71)
Operating profit before changes in working capital	1,443	2,763
Change in trade and other inventories	(71)	139
Change in trade and other receivables	386	461
Change in trade and other payables	(239)	(526)
Cash generated from operations	1,519	2,837
Interest income received	87	182
Taxation recovered/(paid)	2	(94)
Net cash generated from operating activities	1,608	2,925
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from joint ventures and associates	26	56
Purchase of property, plant and equipment	(775)	(1,010)
Net cash used in investing activities	(749)	(954)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to:		
- PETRONAS	(360)	(927)
- others (third parties)	(200)	(513)
- non-controlling interests	-	(63)
Drawdown of:		
- term loan	136	-
- revolving credit	113	-
Proceeds from shares issued to a non-controlling interest	4	1
Payment of lease liabilities:		
- principal	(48)	(37)
- interest	(35)	(21)
Net cash used in financing activities	(390)	(1,560)
Net cash flows from operating, investing and financing activities	469	411
Effect of foreign currency translation differences	4	75
Net increase in cash and cash equivalents	473	486
Net foreign exchange differences on cash held	274	(3)
Cash and cash equivalents at beginning of the period	12,045	12,329
Cash and cash equivalents at end of the period	12,792	12,812

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.

QUARTERLY REPORT

FOR SECOND QUARTER ENDED 30 JUNE 2020



PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. BASIS OF PREPARATION

The condensed consolidated 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 2019. The explanatory notes attached to the condensed consolidated 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 2019.

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 2020.

A2. ADOPTION OF NEW & REVISED PRONOUNCEMENTS AND 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 2019.

As of 1 January 2020, the Group has adopted the following amendments to MFRSs (“pronouncements”) which are effective for annual periods beginning on or after 1 January 2020.

Amendments to MFRS 3	<i>Business Combinations (Definition of a Business)</i>
Amendments to MFRS 7	<i>Financial Instruments: Disclosures – Interest Rate Benchmark Reform</i>
Amendments to MFRS 9	<i>Financial Instruments</i>
Amendments to MFRS 101	<i>Presentation of Financial Statements (Definition of Material)</i>
Amendments to MFRS 108	<i>Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)</i>
Amendments to MFRS 139	<i>Financial Instruments: Recognition and Measurement</i>

In June 2020, the Malaysian Accounting Standards Board has issued amendment to MFRS 16 *Leases (COVID-19 Related Rent Concessions)* in response to the COVID-19 pandemic. The amendment is effective for annual periods beginning on or after 1 June 2020 of which the Group has early adopted the amendments.

The initial application of the above pronouncements is not expected to have any impact to the consolidated financial statements of the Group.

A3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The audited financial statements of PCG and its subsidiaries for the year ended 31 December 2019 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 were no exceptional items during the period under review.

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FOR SECOND QUARTER ENDED 30 JUNE 2020



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

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 2019 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 7 sen per ordinary share, amounting to RM560 million in respect of the financial year ended 31 December 2019 to shareholders on 27 March 2020.

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 port services which provide product distribution infrastructure to the Group as well as activities related to specialty chemicals.

9.1 Revenue

<i>In RM Mil</i>	2020		2019		Cumulative quarter ended 30 June	
	Third Parties	Inter-segment	2020	2019	2020	2019
Olefins and Derivatives	4,057	5,098	8	-	4,065	5,098
Fertilisers and Methanol	2,577	3,344	-	-	2,577	3,344
Others	435	25	25	24	460	49
Total	7,069	8,467	33	24	7,102	8,491

9.2 Segment profit/(loss) for the period ¹

<i>In RM Mil</i>	Cumulative quarter ended 30 June	
	2020	2019
Olefins and Derivatives	15	894
Fertilisers and Methanol	557	1,045
Others ²	106	(14)
Total	678	1,925

¹ Included within profit/(loss) for the period for Olefins and Derivatives, Fertilisers and Methanol and Others segments are depreciation and amortisation expenses amounting to RM399 million (2019: RM412 million), RM418 million (2019: RM406 million) and RM17 million (2019: RM14 million) respectively.

² Includes profit/(loss) from non-reportable segments and unallocated assets.

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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 2020, all property, plant and equipment were stated at cost less accumulated depreciation and impairment losses.

A11. CONTINGENCIES

There were no material contingent liabilities or contingent assets since the last audited consolidated financial statements for the year ended 31 December 2019.

A12. CHANGES IN COMPOSITION OF THE GROUP

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

A13. CAPITAL COMMITMENTS

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

<i>In RM Mil</i>	As at 30.06.2020	As at 31.12.2019
Property, plant and equipment:		
Approved and contracted for	573	604
Approved but not contracted for	1,235	1,748
Total	1,808	2,352

A14. FAIR VALUE INFORMATION

The carrying amounts of cash and cash equivalents, 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.

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

A14. FAIR VALUE INFORMATION (continued)

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

As at 30 June 2020

Fair value of financial instruments carried at fair value

<i>In RM Mil</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Nominal value</u>
Financial assets					
Forward foreign exchange contracts					
- within 1 year	-	1	-	1	118
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(3)	-	(3)	(181)

As at 31 December 2019

Fair value of financial instruments carried at fair value

<i>In RM Mil</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Nominal value</u>
Financial assets					
Forward foreign exchange contracts					
- within 1 year	-	7	-	7	467
Financial liabilities					
Forward foreign exchange contracts					
- within 1 year	-	(7)	-	(7)	(672)

A15. COMPARATIVE FIGURES

Certain comparative figures have been amended as a result of change in accounting policy on investment tax credit on 13 August 2019. Details on the change in accounting policy are as disclosed in the audited financial statements of the Group for the year ended 31 December 2019.

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PART B – OTHER EXPLANATORY NOTES

B1. REVIEW OF GROUP PERFORMANCE

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

<i>In RM Mil</i>	Individual quarter ended 30 June					
	2020	2019	2020	2019	2020	2019
	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	3,178	4,337	1,664	2,349	1,317	1,976
Profit after tax	185	1,112	31*	413	198*	682
EBITDA ³	695	1,521	315*	649	404*	913

*includes reclassification of profit after tax and EBITDA for quarter 1 amounting to RM88 mil from Fertiliser and Methanol segment to Olefins and Derivatives segment.

PCG Group recorded lower plant utilisation rate, production volume and sales volumes as compared to the corresponding quarter.

Overall average prices for the Group decreased from the corresponding quarter in tandem with declining crude oil price arising from OPEC+ fallout and softer demand following global COVID-19 pandemic.

Revenue was lower by RM1.2 billion or 27% at RM3.2 billion largely due to lower product prices and sales volume.

EBITDA decreased by RM826 million or 54% at RM695 million mainly due to compressed margin. Profit after tax also reduced by RM927 million or 83% at RM185 million following lower EBITDA and lower interest income generated from fund placement.

Olefins and Derivatives

The segment recorded comparable plant utilisation rate with corresponding quarter resulting in comparable production and sales volumes.

Average product prices for the segment declined following decreased in crude oil prices and softer demand as mentioned above.

Revenue was lower by RM685 million or 29% at RM1.7 billion mainly as a result of lower product prices.

EBITDA for the segment decreased by RM334 million or 52% at RM315 million and profit after tax decreased by RM 382 million or 93% at RM31 million. Excluding the reclassification above, EBITDA decreased by RM422 million or 65% at RM227 million mainly due to compressed margin and loss after tax at RM57 million largely due to lower EBITDA and higher taxation.

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

QUARTERLY REPORT

FOR SECOND QUARTER ENDED 30 JUNE 2020



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 recorded lower plant utilisation rate as compared to corresponding quarter mainly due to higher level of maintenance activities. Production and sales volumes were also lower.

Average product prices for the segment was lower mainly for methanol in tandem with lower crude oil price and softer demand as mentioned in the previous page.

The segment's revenue decreased by RM659 million or 33% at RM1.3 billion primarily attributed to the decline in product prices and lower sales volume.

EBITDA for the segment decreased by RM509 million or 56% at RM404 million and profit after tax decreased by RM484 million or 71% at RM198 million. Excluding the reclassification above, EBITDA was lower by RM421 million or 46% at RM492 million mainly due to compressed margin and profit after tax decreased by RM396 million or 58% at RM286 million following lower EBITDA, partially offset by lower tax expense.

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

<i>In RM Mil</i>	Cumulative quarter ended					
					30 June	
	2020	2019	2020	2019	2020	2019
	Group		Olefins and Derivatives		Fertilisers and Methanol	
Revenue	7,069	8,467	4,065	5,098	2,577	3,344
Profit after tax	678	1,925	15	893	557	1,045
EBITDA ⁴	1,459	2,783	504	1,382	996	1,500

The Group's plant utilisation was at 97%, lower than 99% in the corresponding period mainly due to higher level of maintenance activities undertaken resulting in slightly lower production and sales volumes.

Overall average prices for the Group decreased from the corresponding period in tandem with declining crude oil price as well as softer demand following global COVID-19 pandemic.

Revenue was lower by RM1.4 billion or 17% at RM7.1 billion largely due to lower product prices.

EBITDA was lower by RM1.3 billion or 48% at RM1.5 billion due to compressed margin. Profit after tax also decreased by RM1.3 billion or 65% at RM678 million following lower EBITDA and lower interest income generated from fund placement partially offset by lower tax expense.

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.

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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

The segment recorded comparable plant utilisation rate, production and sales volumes with the corresponding period.

Average product prices for the segment declined as crude oil prices decreased and softer demand as mentioned in the previous page.

Revenue decreased by RM1.0 billion or 20% at RM4.1 billion largely attributable to lower product prices.

EBITDA was lower by RM878 million or 64% at RM504 million due to compressed margin. Profit after tax also decreased from the corresponding period by RM878 million or 98% at RM15 million largely due to lower EBITDA and net share of losses from associates.

Fertilisers and Methanol

Plant utilisation for the segment was lower with plant utilisation rate of 96% compared to 99% in the corresponding quarter mainly due to higher level of maintenance activities resulting in lower production and sales volumes.

Average product prices for the segment was lower mainly for methanol in tandem with lower crude oil price and softer demand as mentioned in the previous page.

The segment recorded lower revenue by RM767 million or 23% at RM2.6 billion mainly due to lower prices and sales volume.

EBITDA was lower by RM504 million or 34% at RM996 million following compressed margin. Profit after tax also decreased from the corresponding period by RM488 million or 47% at RM557 million in line with lower EBITDA.

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PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

(c) Variation of results against the preceding quarter

<i>In RM Mil</i>	Individual quarter ended	
	30 June 2020	31 March 2020
Revenue	3,178	3,891
Profit after tax	185	493
EBITDA ⁵	695	764

The Group's plant utilisation rate was at 100%, higher than 94% in the preceding quarter mainly due to better plant performance resulting in higher production and sales volumes.

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

Revenue decreased by RM713 million or 18% at RM3.2 billion affected by the lower product prices cushioned by higher sales volume.

EBITDA for the current quarter was lower by RM69 million or 9% at RM695 million mainly due to compressed margin. Profit after tax decreased by RM308 million or 63% at RM185 million in line with lower EBITDA and foreign exchange loss on revaluation of shareholder loan to a joint operation company.

(d) Highlight on consolidated statement of financial position

<i>In RM Mil</i>	As at 30.06.2020	As at 31.12.2019
	Total assets	39,585
Total equity	31,124	30,538
ROE (%)	5.0	9.2

The Group's total assets were higher by RM722 million or 2% at RM39.6 billion. This was due to the increase in cash and cash equivalent contributed by profit generated during the period, partially offset by dividend payment to shareholders. In addition, property, plant and equipment increased primarily in relation to the capital investment in the petrochemicals projects within Pengerang Integrated Complex (PIC) and recognition of additional right-of-use asset.

Total equity was also higher by RM586 million or 2% at RM31.1 billion following profit generated during the period, partially reduced by dividend payment 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.

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PART B – OTHER EXPLANATORY NOTES (continued)

B1. REVIEW OF GROUP PERFORMANCE (continued)

(e) Highlight on consolidated statement of cash flows

<i>In RM Mil</i>	Cumulative quarter ended	
	2020	30 June 2019
Net cash generated from operating activities	1,608	2,925
Net cash used in investing activities	(749)	(954)
Net cash used in financing activities	(390)	(1,560)

Net cash generated from operating activities decreased by RM1.3 billion or 45% at RM1.6 billion, following lower profit generated during the period.

Net cash used in investing activities was lower by RM205 million or 21% at RM749 million, primarily due to lower capital expenditure in petrochemicals projects within PIC.

Net cash used in financing activities for the period was lower by RM1.2 billion or 75% at RM390 million, due to lower dividend payment to shareholders and drawdown from refinancing of term loan and revolving credit at subsidiaries.

B2. COMMENTARY ON PROSPECTS

The results of the Group's operations are expected to be primarily influenced by global economic conditions, petrochemical products prices which have a high correlation to crude oil price, particularly for the Olefins and Derivatives segment, utilisation rate of our production facilities and foreign exchange rate movements. The COVID-19 pandemic continues to adversely affect the global economy and PCG was also not spared.

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 to recover towards the end of the year as downstream demand continues to improve from ease of lockdowns post COVID-19, albeit the increase in product prices is not expected to reach 2019 level.

Fertilisers and Methanol

The Group anticipates product prices for Fertilisers to remain stable moving towards the year end. Fertilisers demand is less impacted by COVID-19, supported by major planting seasons. Methanol demand is projected to improve gradually with crude oil price recovery and improvement in downstream derivatives demand.

B3. PROFIT FORECAST OR PROFIT GUARANTEE

The Group does not publish any profit forecast.

QUARTERLY REPORT

FOR SECOND QUARTER ENDED 30 JUNE 2020



PART B – OTHER EXPLANATORY NOTES (continued)

B4. OPERATING PROFIT

<i>In RM Mil</i>	Individual quarter ended		Cumulative quarter ended	
	2020	30 June 2019	2020	30 June 2019
Included in operating profit are the following charge:				
Depreciation and amortisation	420	405	828	812
Net loss on foreign exchange	47	-	-	-
and credits:				
Interest income	37	92	99	188
Inventories written back to net realisable value	74	29	11	8
Amortisation of deferred income	41	27	82	53
Net gain on foreign exchange	-	37	128	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 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.

B5. TAX EXPENSE

<i>In RM Mil</i>	Individual quarter ended		Cumulative quarter ended	
	2020	30 June 2019	2020	30 June 2019
Current tax expenses				
Current period tax	83	99	149	168
Deferred tax expenses				
Origination and reversal of temporary differences	23	12	26	49
Under provision in respect of prior periods	-	-	6	-
	23	12	32	49
	106	111	181	217

The Group's effective tax rates for the individual and cumulative quarter ended 30 June 2020 are 37% and 21% respectively. The Group's effective tax rate for the quarter ended 30 June 2020 was higher than the corporate tax rate mainly due to a subsidiary business losses not recognised as deferred tax assets in line with Finance Act 2018 of which the utilisation of the business losses is restricted to 7 years and higher non-deductible expenses.

QUARTERLY REPORT

FOR SECOND QUARTER ENDED 30 JUNE 2020



PART B – OTHER EXPLANATORY NOTES (continued)

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 2019.

B7. TRADE AND OTHER RECEIVABLES

(a) Details of Group trade and other receivables

<i>In RM Mil</i>	As at 30.06.2020	As at 31.12.2019
Trade receivables:		
- Third party	1,239	1,464
- Joint ventures and associates	160	203
- Related companies	34	105
Other receivables	187	222
Total	1,620	1,994

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

(b) Ageing analysis of trade receivables

<i>In RM Mil</i>	As at 30.06.2020	As at 31.12.2019
Current	1,373	1,748
Past due 1 to 30 days	54	22
Past due 31 to 60 days	5	2
Past due 61 to 90 days	1	-
Total	1,433	1,772

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

	Denominated currency	<i>In denominated currency</i>		<i>In presentation currency</i>	
		As at 30.06.2020 Mil	As at 31.12.2019 Mil	As at 30.06.2020 RM Mil	As at 31.12.2019 RM Mil
Non-current					
Term loans - secured	USD	461	457	1,975	1,875
Term loan - unsecured	EUR	30	-	145	-
		491	457	2,120	1,875
Current					
Revolving credit - unsecured	EUR	25	-	120	-

During the period, the Group via its subsidiaries, had drawdown EUR denominated borrowings. The unsecured term loan bears interest of 0.71% per annum and is repayable in 2025. The unsecured revolving credit bears interest of 0.79% margin above EURIBOR.

QUARTERLY REPORT

FOR SECOND QUARTER ENDED 30 JUNE 2020



PART B – OTHER EXPLANATORY NOTES (continued)

B8. BORROWINGS (continued)

The secured term loans relate to 50% share of project financing facility of a joint operation company amounting to USD914 million, net of transaction costs. The loans bear interest margin above 6-month LIBOR ranging from 0.80% to 1.74% per annum and are repayable from 2021 to 2034.

The loans are secured in the following manner:

- (i) Completion guarantee from the ultimate holding company, PETRONAS on several and not joint basis which will be uplifted and terminated upon meeting all project completion requirements;
- (ii) Cross-guarantee arrangement under an integrated borrowing structure due to the nature of the project with a related party; and
- (iii) Charge over ordinary shares and the land lease rights of the said joint operation company.

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 2019, other than as disclosed in note A14.

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 2019.

B12. DIVIDENDS

The Directors of the Company have declared an interim single tier dividend of 5 sen per ordinary share, amounting to RM400 million in respect of the financial year ending 31 December 2020 (2019: first interim single tier dividend of 11 sen per ordinary share, amounting to RM880 million in respect of the financial year ended 31 December 2019).

The dividend is payable on 25 September 2020 to depositors registered in the Records of Depositors at the close of business on 8 September 2020.

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 8 September 2020 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.

QUARTERLY REPORT

FOR SECOND QUARTER ENDED 30 JUNE 2020



PART B – OTHER EXPLANATORY NOTES (continued)

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	
	2020	2019	2020	2019
<i>In RM Mil</i>				
Profit for the period attributable to shareholders of the Company	186	1,118	692	1,918
<i>In millions of shares</i>				
Number of ordinary shares issued	8,000	8,000	8,000	8,000
<i>In sen</i>				
Basic earnings per share	2	14	9	24

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.

B14. EXCHANGE RATES

USD/MYR	30.06.2020	Individual quarter ended		30.06.2020	Cumulative quarter ended	
		31.03.2020	30.06.2019		31.12.2019	30.06.2019
Average rate	4.3233	4.1795	4.1481	4.2514	4.1423	4.1193
Closing rate	4.2850	4.3275	4.1415	4.2850	4.0995	4.1415

By order of the Board

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

Kuala Lumpur
19 August 2020