



PETRONAS Group Interim Financial Report

For Second Quarter 2020

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2020

The Board of Directors of PetroliaM Nasional Berhad ("PETRONAS" or the "Company") hereby announce the following unaudited condensed consolidated financial statements of PETRONAS Group for the second quarter ended 30 June 2020 which should be read in conjunction with the Explanatory Notes on pages 7 to 21.

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

In RM Mil	Individual quarter ended		Cumulative quarter ended	
	2020	30 June 2019	2020	30 June 2019
Revenue	34,036	59,124	93,629	121,118
Cost of revenue	(27,236)	(36,237)	(68,178)	(73,756)
Gross profit	6,800	22,887	25,451	47,362
Selling and distribution expenses	(1,922)	(1,864)	(3,930)	(3,620)
Administration expenses	(2,832)	(2,756)	(5,257)	(6,176)
Net impairment (losses)/write-back/write-off ¹	(20,778)	179	(26,415)	263
Other expenses	(1,739)	(107)	(2,953)	(233)
Other income	1,260	1,112	1,926	1,825
Operating (loss)/profit	(19,211)	19,451	(11,178)	39,421
Financing costs	(883)	(587)	(1,546)	(1,820)
Share of (loss)/profit after tax and non-controlling interests of equity accounted associates and joint ventures	(68)	312	53	512
(Loss)/Profit before taxation	(20,162)	19,176	(12,671)	38,113
Tax expense	(877)	(4,484)	(3,848)	(9,173)
(LOSS)/PROFIT FOR THE PERIOD	(21,039)	14,692	(16,519)	28,940
Other comprehensive income/(expenses)				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Net changes in fair value of equity investments at fair value through other comprehensive income ("OCI")	21	(1)	(71)	(1)
<i>Items that may be reclassified subsequently to profit or loss</i>				
Net movements from exchange differences	(1,330)	4,148	5,846	1,254
Others	66	(98)	(857)	(82)
Total other comprehensive (expenses)/income for the period	(1,243)	4,049	4,918	1,171
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE PERIOD	(22,282)	18,741	(11,601)	30,111
(Loss)/Profit attributable to:				
Shareholders of the Company	(21,467)	12,844	(17,679)	24,934
Non-controlling interests	428	1,848	1,160	4,006
(LOSS)/PROFIT FOR THE PERIOD	(21,039)	14,692	(16,519)	28,940
Total comprehensive (expenses)/income attributable to:				
Shareholders of the Company	(22,579)	16,469	(13,614)	26,124
Non-controlling interests	297	2,272	2,013	3,987
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE PERIOD	(22,282)	18,741	(11,601)	30,111

¹Includes certain amount relating to loss on remeasurement of finance lease receivables.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In RM Mil</i>	As at 30.6.2020	As at 31.12.2019
ASSETS		
Property, plant and equipment	303,343	319,204
Investment properties and land held for development	13,718	11,708
Investments in associates and joint ventures	13,870	15,902
Intangible assets	24,436	26,260
Fund and other investments	1,881	1,929
Other non-current assets	42,604	40,956
TOTAL NON-CURRENT ASSETS	399,852	415,959
Trade and other inventories	12,318	14,447
Trade and other receivables	34,947	41,285
Fund and other investments	8,818	8,710
Cash and cash equivalents	156,864	141,622
Other current assets	243	398
TOTAL CURRENT ASSETS	213,190	206,462
TOTAL ASSETS	613,042	622,421
EQUITY		
Share capital	100	100
Reserves	351,382	388,996
Total equity attributable to shareholders of the Company	351,482	389,096
Non-controlling interests	49,967	49,819
TOTAL EQUITY	401,449	438,915
LIABILITIES		
Borrowings	81,463	53,422
Deferred tax liabilities	9,552	12,598
Other long term liabilities and provisions	48,956	44,486
TOTAL NON-CURRENT LIABILITIES	139,971	110,506
Trade and other payables	46,641	53,968
Borrowings	11,026	15,316
Taxation	5,955	3,716
Dividend payable	8,000	-
TOTAL CURRENT LIABILITIES	71,622	73,000
TOTAL LIABILITIES	211,593	183,506
TOTAL EQUITY AND LIABILITIES	613,042	622,421

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Attributable to shareholders of the Company</i>			
	<i>Non-distributable</i>			
	Share Capital	Capital and Other Reserves	Foreign Currency Translation Reserve	Fair Value through OCI Reserve
<i>In RM Mil</i>				
Cumulative quarter ended 30 June 2019				
Balance at 1 January 2019				
- As previously reported	100	14,191	31,245	(75)
- Effect of the adoption of MFRS 16	-	-	-	-
At 1 January 2019, restated	100	14,191	31,245	(75)
Net changes of equity investments at fair value through OCI:				
- Changes in fair value	-	-	-	(1)
Net movements from exchange differences	-	(5)	1,357	-
Others	-	(161)	-	-
Total other comprehensive (expenses)/income for the period, net of tax	-	(166)	1,357	(1)
Profit for the period	-	-	-	-
Total comprehensive (expenses)/income for the period	-	(166)	1,357	(1)
Changes in ownership interest in subsidiaries	-	-	(116)	-
Disposal of subsidiaries	-	-	(260)	-
Redemption of redeemable preference shares in subsidiaries	-	355	-	-
Dividends	-	-	-	-
Total transactions with shareholders	-	355	(376)	-
Balance at 30 June 2019	100	14,380	32,226	(76)
Cumulative quarter ended 30 June 2020				
Balance at 1 January 2020	100	14,509	30,014	(78)
Net changes of equity investments at fair value through OCI:				
- Changes in fair value	-	-	-	(71)
Net movements from exchange differences	-	-	4,953	-
Others	-	(817)	-	-
Total other comprehensive (expenses)/income for the period, net of tax	-	(817)	4,953	(71)
(Loss)/Profit for the period	-	-	-	-
Total comprehensive (expenses)/income for the period	-	(817)	4,953	(71)
Changes in ownership interest in subsidiaries	-	-	-	-
Acquisition of a subsidiary	-	-	-	-
Redemption of redeemable preference shares in subsidiaries	-	120	-	-
Dividends	-	-	-	-
Total transactions with shareholders	-	120	-	-
Balance at 30 June 2020	100	13,812	34,967	(149)

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	<i>Attributable to shareholders of the Company</i>				
	<u>Distributable</u>			Non- controlling Interests	Total Equity
<i>In RM Mil</i>	General Reserve	Retained Profits	Total		
Cumulative quarter ended 30 June 2019					
Balance at 1 January 2019					
- As previously reported	12,000	323,010	380,471	44,781	425,252
- Effect of the adoption of MFRS 16	-	(813)	(813)	(65)	(878)
At 1 January 2019, restated	12,000	322,197	379,658	44,716	424,374
Net changes of equity investments at fair value through OCI:					
- Changes in fair value	-	-	(1)	-	(1)
Net movements from exchange differences	-	-	1,352	(98)	1,254
Others	-	-	(161)	79	(82)
Total other comprehensive (expenses)/income for the period, net of tax	-	-	1,190	(19)	1,171
Profit for the period	-	24,934	24,934	4,006	28,940
Total comprehensive (expenses)/income for the period	-	24,934	26,124	3,987	30,111
Changes in ownership interest in subsidiaries	-	68	(48)	266	218
Disposal of subsidiaries	-	-	(260)	-	(260)
Redemption of redeemable preference shares in subsidiaries	-	(355)	-	(73)	(73)
Dividends	-	(24,000)	(24,000)	(3,100)	(27,100)
Total transactions with shareholders	-	(24,287)	(24,308)	(2,907)	(27,215)
Balance at 30 June 2019	12,000	322,844	381,474	45,796	427,270
Cumulative quarter ended 30 June 2020					
Balance at 1 January 2020	12,000	332,551	389,096	49,819	438,915
Net changes of equity investments at fair value through OCI:					
- Changes in fair value	-	-	(71)	-	(71)
Net movements from exchange differences	-	-	4,953	893	5,846
Others	-	-	(817)	(40)	(857)
Total other comprehensive (expenses)/income for the period, net of tax	-	-	4,065	853	4,918
(Loss)/Profit for the period	-	(17,679)	(17,679)	1,160	(16,519)
Total comprehensive (expenses)/income for the period	-	(17,679)	(13,614)	2,013	(11,601)
Changes in ownership interest in subsidiaries	-	-	-	2	2
Acquisition of a subsidiary	-	-	-	656	656
Redemption of redeemable preference shares in subsidiaries	-	(120)	-	-	-
Dividends	-	(24,000)	(24,000)	(2,523)	(26,523)
Total transactions with shareholders	-	(24,120)	(24,000)	(1,865)	(25,865)
Balance at 30 June 2020	12,000	290,752	351,482	49,967	401,449

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In RM Mil</i>	Cumulative quarter ended	
	2020	30 June 2019
Cash flows from operating activities		
(Loss)/Profit before taxation	(12,671)	38,113
Adjustments for:		
Depreciation and amortisation	17,703	18,269
Net change in contract liabilities	(88)	(56)
Net impairment losses/(write-back) on:		
- property, plant and equipment	21,771	48
- intangible assets	3,668	-
- loan and advances to a joint venture	49	-
- receivables	(39)	(311)
Net impairment/write-off on well costs	239	448
Write-off of trade receivables and loss on remeasurement of finance lease receivables	935	-
Net inventories written down to net realisable value	(1)	(2)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	(53)	(512)
Property, plant and equipment written off	-	2
Net loss/(gain) on disposal of investment in subsidiaries, other investments and property, plant and equipment	9	(226)
Bad debts written off	31	2
Net (gain)/loss on derivatives	(125)	50
Unrealised loss on foreign exchange	561	(326)
Gain on bargain purchase	(261)	-
Interest income	(2,704)	(3,682)
Financing costs	1,546	1,820
Net change in provisions	(23)	(11)
Selling profit on recognition of finance lease receivables	(25)	-
Operating profit before changes in working capital	30,522	53,626
Net changes in working capital	(205)	(1,615)
Cash generated from operations	30,317	52,011
Interest income from fund and other investments	2,704	2,928
Interest expenses paid	(1,431)	(1,390)
Taxation paid, net of refund	(5,322)	(8,661)
Net cash generated from operating activities	26,268	44,888

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In RM Mil</i>	Cumulative quarter ended	
	2020	30 June 2019
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	-	(1,121)
Investment in associates and joint ventures	(43)	(95)
Investment in securities and other investments	(1,311)	(1,173)
Proceeds from disposal/partial disposal of:		
- investment in subsidiaries, net of cash disposed	54	281
- property, plant and equipment	273	109
- securities and other investments	1,055	496
Purchase of property, plant and equipment, investment properties, intangible assets and land held for development	(14,707)	(15,746)
Dividends received	438	597
Long term receivables to a joint venture	(613)	(2,317)
Proceeds from redemption of preference shares in joint ventures	511	-
Net cash used in investing activities	(14,343)	(18,969)
Cash flows from financing activities		
Repayment of borrowings	(12,668)	(6,252)
Drawdown of borrowings	34,088	6,045
Dividends paid	(16,000)	(26,000)
Dividends paid to non-controlling interests	(2,523)	(3,100)
Payment of lease liabilities	(2,187)	(754)
Payment to non-controlling interests on redemption of redeemable preference shares	-	(73)
Proceeds from partial disposal of equity interest to non-controlling interests	2	218
Net cash generated from/(used in) financing activities	712	(29,916)
Net increase/(decrease) in cash and cash equivalents	12,637	(3,997)
Increase in cash and cash equivalents restricted	(343)	(355)
Net foreign exchange differences	2,384	(372)
Cash and cash equivalents at beginning of the year	139,851	172,458
Cash and cash equivalents at end of the period	154,529	167,734
Cash and cash equivalents		
Cash and bank balances and deposits	156,864	169,984
Bank overdrafts	(630)	(1,233)
Less: Cash and cash equivalents restricted	(1,705)	(1,017)
	154,529	167,734

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PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*. The results for this interim period are unaudited and should be read in conjunction with the Group's audited consolidated financial statements and the accompanying notes for the year ended 31 December 2019.

The explanatory notes attached to these unaudited 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.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information presented herein has been prepared in accordance with the accounting policies to be used in preparing the annual consolidated financial statements for 31 December 2020 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2019 except as disclosed below.

At the beginning of the current financial year, the Group has adopted the following Amendments to MFRSs (collectively referred to as "pronouncements") that have been issued by the MASB and are applicable as listed below:

Effective for annual periods beginning on or after 1 January 2020

Amendments to MFRS 3 *Business Combinations (Definition of a Business)*

Amendments to MFRS 9 *Financial Instruments*, MFRS 139 *Financial Instruments: Recognition and Measurement* and MFRS 7 *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

Amendments to MFRS 101 *Presentation of Financial Statements (Definition of Material)*

Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)*

The Group has also early adopted the Amendment to MFRS 16 *Leases (COVID-19 Related Rent Concessions)* issued by MASB in June 2020, in response to the COVID-19 pandemic. The amendment is effective for annual periods beginning on or after 1 June 2020.

The adoption of these pronouncements did not have a significant impact on the Group's reported income and net assets.

3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

There was no qualified audit report issued by the auditors in the annual financial statements for the year ended 31 December 2019.

4. SEASONALITY OR CYCLICALITY OF OPERATIONS

The Group's operations, on overall, are not significantly affected by seasonal or cyclical fluctuations of the business/industry.

5. EXCEPTIONAL ITEMS

There was no exceptional item during the quarter under review.

6. DIVIDENDS

During the financial period, the Company paid a dividend of RM16 billion, being partial payments of the approved tax-exempt final dividend of RM240,000 per ordinary share amounting to RM24 billion in respect of financial year ended 31 December 2019 declared on 26 February 2020 and approved by the shareholders on 26 March 2020. Subsequent to the financial period, the remaining amount of the final dividend amounting to RM8 billion will be fully paid by end of August 2020.

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

7. SIGNIFICANT AND SUBSEQUENT EVENTS

- i. The Refining and Petrochemical facilities at the PETRONAS' Pengerang Integrated Complex ("PIC") have commenced start-up and proceeded with Performance Test Runs ("PTR") beginning September 2019 post the Atmospheric Residue Desulphurisation ("ARDS") incident in April 2019. However, following the Diesel Hydro Treating ("DHT") unit fire incident on 15 March 2020, the Refining and Petrochemical operation was stopped pending further readiness and integrity assessment, and rectification of defects to ensure safe and reliable operation. The restart-up is currently planned for Q1 FY2021.
- ii. The State of Sabah has gazetted the coming into force of the Sabah State Sales Tax on crude oil, condensate, natural gas and liquified natural gas at the rate of 5% effective 1 April 2020. The Group is currently in communication with the state government on this matter.
- iii. On 8 April 2020, the Arbitral Tribunal announced its decision on the arbitration proceedings initiated by Gumusut-Kakap Semi Floating Production System (L) Limited ("GKL"), an indirect partly-owned subsidiary of PETRONAS, against Sabah Shell Petroleum Company Limited ("SSPC"). The outcome of the decision has resulted in an unfavourable impact to the Group. GKL is advised that it has legal grounds to challenge the Award and on 7 July 2020, GKL has filed certain court applications, claiming for, among others, that parts of the Arbitral Award dated 8 April 2020 to be set aside.

Following the above, the Group has decided to include a write off of trade receivables and loss on re-measurement of finance lease receivables amounting to RM935 million and provision for litigation claims of RM1,049 million in the current period's financial results.

- iv. On 15 April 2020, PETRONAS successfully priced a US\$6 billion multi-tranche senior bond offering, comprising US\$2.25 billion 10-year, US\$2.75 billion 30-year and US\$1 billion 40-year conventional notes. The issuance represents PETRONAS' return to the international US dollar bond markets since its US\$5 billion multi-tranche offering in March 2015 and is part of the on-going prudent capital management efforts which also effectively extend its debt maturity profile. The proceeds will be used by PETRONAS, or its subsidiaries and associated companies, for refinancing, capital expenditures, working capital and general corporate purposes.
- v. In 2019, the State of Sarawak brought a legal suit against PETRONAS in the Kuching High Court, alleging that PETRONAS has failed to make payments of RM1,345 million for the state sales tax ("SST") imposed on petroleum products including interests and penalties under the Sarawak Sales Tax Ordinance 1998 (as amended in 2018). In response, PETRONAS had filed a judicial review to challenge the jurisdiction of the State of Sarawak over the imposition of sales tax for petroleum products. At the same time, PETRONAS had filed a defence against the civil suit and a stay of proceedings of the civil suit pending the disposal of the judicial review and determination of certain points of law to the Federal Court. Notwithstanding its legal position, in order to achieve mutual benefit to PETRONAS and State of Sarawak and to create a stable environment for investment in Sarawak, PETRONAS intends to achieve a holistic commercial resolution with Sarawak State on the SST and other demands raised by Sarawak State. Currently, negotiations are ongoing.

On 3 August 2020, PETRONAS has withdrawn its appeal against decision at the High Court of Kuching in relation to the judicial review. On 6 August 2020, Sarawak State has also withdrawn the civil suit against PETRONAS. PETRONAS and the affected subsidiaries will accordingly submit their respective SST returns.

- vi. On 15 June 2020, PETRONAS via its wholly-owned subsidiary, KLCC Holdings Sdn. Bhd. ("KLCCH"), has fulfilled all the conditions of the Third Supplemental Joint Venture Agreement signed with QD Asia Pacific Ltd. for the subscription of additional 18.75% equity interest in Cititower Sdn. Bhd. ("CTSB"). Hence, KLCCH currently holds 68.75% in CTSB. The principal activity of CTSB is property investment.

The net profit contributed by this subsidiary from the date of acquisition is not material in relation to the consolidated net profit of the Group for the period.

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

7. SIGNIFICANT AND SUBSEQUENT EVENTS (continued)

- vii. PETRONAS and its subsidiary (“PETRONAS Group”) on 22 June 2020 have received notice of additional assessments arising from the tax audits conducted by the Inland Revenue Board (“IRB”) for petroleum activities in the previous years. PETRONAS Group has initiated legal proceedings with a view to seek resolution on this matter. On 10 August 2020, the High Court has granted the Group an interim stay against the IRB for the imposition of additional tax assessment. Notwithstanding the above, parties are currently negotiating for an amicable solution.

8. CHANGES IN COMPOSITION OF THE GROUP

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

9. FAIR VALUE INFORMATION

The following table analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

There were no transfers between Level 1 and Level 2 fair value measurements during the current financial period and comparative period.

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

9. FAIR VALUE INFORMATION (continued)

30 June 2020

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	702	10	712
Quoted securities	397	-	397
Malaysian Government Securities	-	472	472
Corporate Bonds and Sukuk	-	7,553	7,553
Commodity swaps	-	13	13
Forward foreign exchange contracts	-	15	15
Forward gas contracts	463	171	634
Forward oil/gas price swaps	60	-	60
	<u>1,622</u>	<u>8,234</u>	<u>9,856</u>
Financial liabilities			
Commodity swaps	-	(292)	(292)
Forward foreign exchange contracts	-	(228)	(228)
Forward gas contracts	(606)	(12)	(618)
Forward oil/gas price swaps	(239)	-	(239)
Interest rate swaps	-	(682)	(682)
	<u>(845)</u>	<u>(1,214)</u>	<u>(2,059)</u>

31 December 2019

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	780	35	815
Quoted securities	135	-	135
Malaysian Government Securities	-	610	610
Corporate Bonds and Sukuk	-	7,198	7,198
Commodity swaps	-	2	2
Forward foreign exchange contracts	-	58	58
Forward gas contracts	427	158	585
Forward oil/gas price swaps	142	-	142
Interest rate swaps	-	2	2
	<u>1,484</u>	<u>8,063</u>	<u>9,547</u>
Financial liabilities			
Commodity swaps	-	(27)	(27)
Forward foreign exchange contracts	-	(74)	(74)
Forward gas contracts	(352)	(7)	(359)
Forward oil/gas price swaps	(14)	-	(14)
Interest rate swaps	-	(160)	(160)
	<u>(366)</u>	<u>(268)</u>	<u>(634)</u>

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

10. REVENUE

The Group's operations and main revenue streams are those described in the latest annual financial statements. The following table includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

<i>In RM Mil</i>	Individual quarter ended 30 June									
	Upstream		Gas and New Energy		Downstream		Corporate and Others		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue from contract customers	4,008	10,336	11,464	16,214	15,174	27,971	808	1,182	31,454	55,703
Other revenue	270	578	141	435	89	268	2,082	2,140	2,582	3,421
Total	4,278	10,914	11,605	16,649	15,263	28,239	2,890	3,322	34,036	59,124

<i>In RM Mil</i>	Cumulative quarter ended 30 June									
	Upstream		Gas and New Energy		Downstream		Corporate and Others		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Revenue from contract customers	13,213	18,776	30,892	37,589	41,748	55,040	2,226	2,595	88,079	114,000
Other revenue	760	1,265	701	1,140	228	394	3,861	4,319	5,550	7,118
Total	13,973	20,041	31,593	38,729	41,976	55,434	6,087	6,914	93,629	121,118

11. OPERATING SEGMENTS

The Group's reportable operating segments comprising Upstream, Gas and New Energy and Downstream. Each reportable segment offers different products and services and are managed separately as described in the Group's audited consolidated financial statements for the year ended 31 December 2019.

For each of the reportable segment, the Group chief operating decision maker, which in this case is the PETRONAS Executive Leadership Team ("ELT"), reviews internal management reports at least on a quarterly basis.

Performance is measured based on segment Profit After Tax ("PAT"), as included in the internal management reports. Segment PAT is used to measure performance as the PETRONAS ELT believes that such information is the most relevant in evaluating the results of the segments.

11.1 Segment revenue

<i>In RM Mil</i>	Individual quarter ended 30 June							
	2020		2019		2020		2019	
	Third Parties		Inter-segment		Gross Total			
Upstream	4,278	10,914	7,335	15,450	11,613	26,364		
Gas and New Energy	11,605	16,649	1,767	2,228	13,372	18,877		
Downstream	15,263	28,239	183	339	15,446	28,578		
Corporate and Others	2,890	3,322	1,182	1,073	4,072	4,395		
Total	34,036	59,124	10,467	19,090	44,503	78,214		

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

11. OPERATING SEGMENTS (continued)

11.1 Segment revenue (continued)

<i>In RM Mil</i>	2020		2019		Cumulative quarter ended 30 June	
	2020	2019	2020	2019	2020	2019
	Third Parties		Inter-segment		Gross Total	
Upstream	13,973	20,041	22,115	32,060	36,088	52,101
Gas and New Energy	31,593	38,729	4,275	4,563	35,868	43,292
Downstream	41,976	55,434	455	613	42,431	56,047
Corporate and Others	6,087	6,914	2,266	2,254	8,353	9,168
Total	93,629	121,118	29,111	39,490	122,740	160,608

11.2 Segment PAT/(LAT)²

<i>In RM Mil</i>	Individual quarter ended 30 June		Cumulative quarter ended 30 June	
	2020	2019	2020	2019
Upstream	(13,741)	7,651	(11,816)	12,869
Gas and New Energy	(9,162)	2,491	(6,254)	7,260
Downstream	(249)	1,460	(1,414)	2,886
Corporate and Others	1,091	2,272	1,110	4,419
Total (LAT)/PAT for reportable segments	(22,061)	13,874	(18,374)	27,434
Elimination of inter-segment transactions	1,022	818	1,855	1,506
Consolidated (LAT)/PAT	(21,039)	14,692	(16,519)	28,940

² Loss After Tax

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PART B – OTHER EXPLANATORY NOTES

12. REVIEW OF GROUP PERFORMANCE

Cumulative quarter ended		<i>In RM Mil</i>	Individual quarter ended		
30.6.2019	30.6.2020		30.6.2020	31.3.2020	30.6.2019
121,118	93,629	Revenue	34,036	59,593	59,124
28,940	(16,519)	PAT/(LAT)	(21,039)	4,520	14,692
54,730	29,419	EBITDA ³	9,125	20,294	26,929
<i>In RM Mil</i>				As at	As at
Cash flows from operating activities				30.6.2020	30.6.2019
Capital investments				26,268	44,888
				14,750	15,746
<i>In RM Mil</i>				As at	As at
Total assets				30.6.2020	31.12.2019
Shareholders' equity				613,042	622,421
Gearing ratio ⁴				351,482	389,096
ROACE ⁵				24.8%	19.4%
				(0.8%)	8.7%

Second quarter PETRONAS Group's revenue of RM34.0 billion for the second quarter of 2020, lower by 42% as compared to the second quarter of 2019. The Group recorded LAT of RM21.0 billion for the second quarter of 2020, as compared to the PAT of RM14.7 billion for the second quarter of 2019.

The Group's lower revenue was mainly due to the impact of lower average realised prices recorded for major products on the back of lower sales volume mainly for petroleum products, LNG and processed gas.

The Group recorded LAT primarily due to lower revenue and higher net impairment losses on assets. The Group's EBITDA of RM9.1 billion for the second quarter of 2020, lower by RM17.8 billion as compared to the second quarter of 2019 in line with lower profit.

Cumulative quarter PETRONAS Group's revenue of RM93.6 billion for the first half of 2020, lower by 23% as compared to the same period of 2019. The Group recorded LAT of RM16.5 billion for the first half of 2020, as compared to the PAT of RM28.9 billion for the same period in 2019.

The Group's lower revenue was mainly due to the impact of lower average realised prices recorded for all products, on the back of lower sales volume mainly for processed gas and LNG.

The Group recorded LAT primarily due to lower revenue and net impairment losses on assets. The Group's EBITDA of RM29.4 billion for the first half of 2020, lower by 46% as compared to the same period in 2019 in line with lower profit.

Cash flows from operating activities for the first half of 2020 decreased by 41% as compared to the same period in 2019 due to lower cash operating profit partially offset by lower taxation paid. Capital investments for the first half of 2020 amounted to RM14.8 billion, mainly attributed to Upstream projects.

Total assets decreased to RM613.0 billion as at 30 June 2020 as compared to RM622.4 billion as at 31 December 2019. Shareholders' equity of RM351.5 billion as at 30 June 2020 decreased by RM37.6 billion as compared to 31 December 2019 mainly due to loss recorded during the period and final dividend of RM24.0 billion in respect of the financial year ended 31 December 2019.

Gearing ratio increased to 24.8% as at 30 June 2020 from 19.4% as at 31 December 2019 mainly due to the reduction in equity associated with the first half of 2020 loss and issuance of new bond in April 2020 of US\$6 billion. ROACE stands at negative 0.8% as at 30 June 2020 from 8.7% as at 31 December 2019 in line with loss during the period.

³ EBITDA consists of profit before taxation and non-controlling interests, with the addition of amounts previously deducted for depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets, and the exclusion of financing costs and interest income.

⁴ Gearing ratio is calculated as adjusted total debt (total debt including provision for decommissioning of assets) divided by total equity and adjusted total debt.

⁵ Return on average capital employed ("ROACE") is calculated as profit before interest expense after tax divided by average total equity and long term debt during the year.

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PART B – OTHER EXPLANATORY NOTES (continued)

13. REVIEW OF PERFORMANCE – UPSTREAM

Cumulative quarter ended		Financial Indicators <i>In RM Mil</i>	Individual quarter ended		
30.6.2019	30.6.2020		30.6.2020	31.3.2020	30.6.2019
		Revenue			
20,041	13,973	Third party	4,278	9,695	10,914
32,060	22,115	Inter-segment	7,335	14,780	15,450
<u>52,101</u>	<u>36,088</u>		<u>11,613</u>	<u>24,475</u>	<u>26,364</u>
12,869	(11,816)	PAT/(LAT)	(13,741)	1,925	7,651
Cumulative quarter ended		Operational Indicators	Individual quarter ended		
30.6.2019	30.6.2020		30.6.2020	31.3.2020	30.6.2019
		Production ⁶ ('000 boe ⁷ per day)			
939	872	Crude oil and condensate	783	962	943
1,479	1,383	Natural gas	1,264	1,502	1,457
<u>2,418</u>	<u>2,255</u>		<u>2,047</u>	<u>2,464</u>	<u>2,400</u>
		Entitlement ⁸ ('000 boe per day)			
573	592	Crude oil and condensate	571	611	584
1,184	1,047	Natural gas	865	1,230	1,107
<u>1,757</u>	<u>1,639</u>		<u>1,436</u>	<u>1,841</u>	<u>1,691</u>

Second quarter Revenue for the second quarter of 2020 was RM11.6 billion, lower by 56% as compared to the second quarter of 2019 mainly due to the impact of lower average realised prices and volume for liquids and gas. LAT for the second quarter of 2020 was RM13.7 billion, as compared to PAT of RM7.7 billion in the second quarter of 2019 mainly due to lower revenue recorded and net impairment losses on assets. This was partially offset by lower tax and lower operating expenses.

Total production volume for the second quarter of 2020 was 2,047 thousand boe per day as compared to 2,400 thousand boe per day in the second quarter of 2019 mainly due to lower demand following global COVID-19 pandemic, partially offset by higher liquid production from Brazil.

Cumulative quarter Revenue for the first half of 2020 was RM36.1 billion, lower by 31% as compared to the same period in 2019 mainly due to the impact of lower average realised prices for liquids and gas. LAT for the first half of 2020 was RM11.8 billion, as compared to PAT of RM12.9 billion for the same period in 2019 mainly due to lower revenue and higher net impairment losses on assets. This was partially offset by lower tax and lower operating expenses.

Total production volume for the first half of 2020 was 2,255 thousand boe per day as compared to 2,418 thousand boe per day for the same period in 2019 mainly due to lower demand as mentioned above.

⁶ Represents Malaysia's production (PETRONAS Group and other Operators) and PETRONAS Group's international equity production volume.

⁷ boe: barrels of oil equivalent

⁸ Represents PETRONAS Group's sales entitlement to Malaysia's production and PETRONAS Group's international sales entitlement volume.

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PART B – OTHER EXPLANATORY NOTES (continued)

14. REVIEW OF PERFORMANCE – GAS AND NEW ENERGY

Cumulative quarter ended		<i>Financial Indicators</i> <i>In RM Mil</i>	30.6.2020	Individual quarter ended	
30.6.2019	30.6.2020			31.3.2020	30.6.2019
38,729	31,593	Revenue			
4,563	4,275	Third party	11,605	19,988	16,649
43,292	35,868	Inter-segment	1,767	2,508	2,228
7,260	(6,254)	PAT/(LAT)	13,372	22,496	18,877
			(9,162)	2,908	2,491

Cumulative quarter ended		<i>Operational Indicators</i>	30.6.2020	Individual quarter ended	
30.6.2019	30.6.2020			31.3.2020	30.6.2019
2,928	2,425	Malaysia average sales gas volume (mmscfd) ⁹	2,284	2,566	2,895
17.16	16.70	Gross LNG sales volume (million tonnes) ¹⁰	6.71	9.99	7.76

Second quarter Revenue for the second quarter of 2020 was RM13.4 billion, lower by 29% as compared to the second quarter of 2019 mainly due to the impact of lower average realised prices and sales volume for all products. LAT for the second quarter of 2020 was RM9.2 billion, as compared to PAT of RM2.5 billion in the second quarter of 2019 mainly due to lower revenue and net impairment losses on assets partially offset by lower product costs and tax expenses.

Malaysia average sales gas volume for the second quarter of 2020 was lower by 611 mmscfd as compared to the second quarter of 2019 mainly driven by lower offtake from power sector in Peninsular Malaysia following movement restrictions in the wake of COVID-19 pandemic.

Gross LNG sales volume for the second quarter of 2020 was lower by 1.05 million tonnes as compared to the second quarter of 2019 mainly attributed to lower volume from PETRONAS LNG Complex ("PLC") offset by higher trading activities.

Cumulative quarter Revenue for the first half of 2020 was RM35.9 billion, lower by 17% as compared to the same period in 2019 mainly due to the impact of lower average realised prices and sales volume for all products. LAT for the first half of 2020 was RM6.3 billion, as compared to PAT of RM7.3 billion for the same period in 2019 mainly due to lower revenue and net impairment losses on assets and sales tax partially offset by lower product costs and tax expenses.

Malaysia average sales gas volume for the first half of 2020 was lower by 503 mmscfd as compared to the same period in 2019 mainly driven by lower offtake from power sector in Peninsular Malaysia following movement restrictions in the wake of COVID-19 pandemic.

Gross LNG sales volume for the first half of 2020 was lower by 0.46 million tonnes as compared to the same period in 2019 mainly attributed to lower volume from PLC partially offset by higher trading activities.

⁹ mmscfd: million standard cubic feet per day

¹⁰ Gross volume refers to all LNG sales inclusive of volume subsequently sold as sales gas

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PART B – OTHER EXPLANATORY NOTES (continued)

15. REVIEW OF PERFORMANCE – DOWNSTREAM

Cumulative quarter ended		Financial Indicators <i>In RM Mil</i>	Individual quarter ended		
30.6.2019	30.6.2020		30.6.2020	31.3.2020	30.6.2019
		Revenue			
55,434	41,976	Third party	15,263	26,713	28,239
613	455	Inter-segment	183	272	339
56,047	42,431		15,446	26,985	28,578
2,886	(1,414)	PAT/(LAT)	(249)	(1,165)	1,460
Cumulative quarter ended		Operational Indicators	Individual quarter ended		
30.6.2019	30.6.2020		30.6.2020	31.3.2020	30.6.2019
127.5	131.1	Petroleum products sales volume (in million barrels)	57.9	73.2	63.2
66.5	65.5	Crude oil sales volume (in million barrels)	34.0	31.5	35.9
4.2	4.1	Petrochemical products sales volume (in million metric tonnes)	2.1	2.0	2.3

Second quarter Revenue for the second quarter of 2020 was RM15.4 billion, lower by 46% as compared to the second quarter of 2019 mainly due to the impact of lower average realised prices as well as lower sales volume for petroleum products, crude oil and petrochemical products. LAT for the second quarter of 2020 was RM0.2 billion as compared to PAT of RM1.5 billion in the second quarter of 2019 mainly due to lower petrochemical products spreads as well as lower petroleum products marketing margins and sales volume.

Petroleum products sales volume for the second quarter of 2020 was 57.9 million barrels, lower by 5.3 million barrels as compared to the second quarter of 2019 mainly due to lower demand following movement restrictions in the wake of COVID-19 pandemic.

Crude oil sales volume for the second quarter of 2020 was 34.0 million barrels, lower by 1.9 million barrels as compared to the second quarter of 2019 mainly due to limited trading opportunities.

Petrochemical products sales volume for the second quarter of 2020 was 2.1 million metric tonnes, lower by 0.2 million metric tonnes as compared to the second quarter of 2019 mainly due to lower production.

Cumulative quarter Revenue for the first half of 2020 was RM42.4 billion, lower by 24% as compared to the same period in 2019 mainly due to the impact of lower average realised prices for petroleum products, crude oil and petrochemical products. LAT for the first half of 2020 was RM1.4 billion, as compared to PAT of RM2.9 billion for the same period in 2019 mainly impacted by inventory losses as well as lower refining margins, petrochemical products spreads and petroleum product marketing sales volume.

Petroleum products sales volume for the first half of 2020 was 131.1 million barrels, higher by 3.6 million barrels as compared to the same period in 2019 following higher trading activities, partially offset by lower marketing volume because of the COVID-19 pandemic.

Crude oil sales volume for the first half of 2020 was 65.5 million barrels, lower by 1.0 million barrels as compared to the same period in 2019 mainly due to limited trading opportunities, partially offset by increased crude oil marketing activities.

Petrochemical products sales volume for the first half of 2020 was 4.1 million metric tonnes, lower by 0.1 million metric tonnes as compared to the same period in 2019 mainly due to lower production.

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PART B – OTHER EXPLANATORY NOTES (continued)

16. REVIEW OF PERFORMANCE – CORPORATE AND OTHERS

Cumulative quarter ended		Financial Indicators <i>In RM Mil</i>	Individual quarter ended		
30.6.2019	30.6.2020		30.6.2020	31.3.2020	30.6.2019
6,914	6,087	Revenue			
2,254	2,266	Third party	2,890	3,197	3,322
9,168	8,353	Inter-segment	1,182	1,084	1,073
4,419	1,110	PAT	4,072	4,281	4,395
			1,091	19	2,272

Second quarter Revenue for the second quarter of 2020 was RM4.1 billion, lower by 7% as compared to the second quarter of 2019 mainly from properties business. PAT for the second quarter of 2020 was RM1.1 billion, lower as compared to PAT of RM2.3 billion in the second quarter of 2019 mainly due to lower revenue as mentioned above as well as higher net impairment losses of assets.

Cumulative quarter Revenue for the first half of 2020 was RM8.4 billion, lower by 9% as compared to the same period in 2019 mainly due to lower fund investment income. PAT for the first half of 2020 was RM1.1 billion, as compared to the same period in 2019 mainly due to provision for litigation claims arising from unfavourable arbitration result impact.

17. COMPARISON WITH PRECEDING QUARTER'S RESULT

<i>In RM Mil</i>	Individual quarter ended	
	30.6.2020	31.3.2020
Revenue	34,036	59,593
(LAT)/PAT	(21,039)	4,520
EBITDA	9,125	20,294

PETRONAS Group recorded 43% decrease in revenue in the second quarter of 2020 at RM34.0 billion as compared to the preceding quarter of RM59.6 billion. The decrease in revenue was mainly driven by the impact of lower average realised prices for major products on the back of lower sales volume mainly from LNG and petroleum products.

LAT for the second quarter of 2020 was RM21.0 billion, as compared to the preceding quarter PAT of RM4.5 billion mainly due to higher net impairment losses on assets. EBITDA for the second quarter of 2020 was RM9.1 billion, lower as compared to the preceding quarter in line with lower profit.

18. CURRENT FINANCIAL YEAR PROSPECTS

The industry continues to operate in a challenging and unprecedented market environment arising from a combination of severe demand destructions due to COVID-19 pandemic and global oil market glut. PETRONAS will continue to intensify its efforts to protect revenue together with cost optimisation to mitigate the negative impact on its profitability and liquidity. The Board expects its 2020 performance to be severely affected by the low oil price and weak demand environment.

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PART B – OTHER EXPLANATORY NOTES (continued)

19. TAXATION

<i>In RM Mil</i>	Individual quarter ended		Cumulative quarter ended	
	2020	30 June 2019	2020	30 June 2019
Current tax expenses				
Malaysia	2,652	4,757	7,314	9,710
Overseas	138	422	343	844
Deferred tax expenses				
Origination and reversal of temporary differences	(1,913)	(695)	(3,809)	(1,381)
	<u>877</u>	<u>4,484</u>	<u>3,848</u>	<u>9,173</u>

A reconciliation of income tax expense applicable to (loss)/profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group is as follows:

<i>In RM Mil</i>	Cumulative quarter ended			
	%	2020	%	30 June 2019
(Loss)/Profit before taxation		<u>(12,671)</u>		<u>38,113</u>
Taxation at Malaysian statutory tax rate	24	(3,041)	24	9,147
Effect of different tax rates in foreign & other tax jurisdictions	(23)	2,853	-	(182)
Non deductible expenses	(16)	2,007	4	1,433
Tax exempt income	5	(650)	(3)	(971)
Tax incentives	7	(901)	-	-
Effect of deferred tax benefits not recognised	(11)	1,415	(1)	(77)
Foreign exchange translation difference	-	(23)	-	(140)
	<u>(13)</u>	<u>1,660</u>	<u>24</u>	<u>9,210</u>
Under/(Over) provision in prior years		2,188		(37)
Tax expense		<u>3,848</u>		<u>9,173</u>

20. CASH, FUND AND OTHER INVESTMENTS

<i>In %</i>	As at 30.6.2020	As at 31.12.2019
By Currency		
RM	59.9	72.7
USD	38.2	24.6
Others	1.9	2.7
	<u>100.0</u>	<u>100.0</u>
By Maturity¹¹		
< 1 year	94.6	94.0
1 to 5 years	2.4	2.7
5 to 10 years	3.0	3.3
	<u>100.0</u>	<u>100.0</u>
By Type		
Money market	94.3	93.8
Corporate bonds	4.9	5.2
Equities	0.8	1.0
	<u>100.0</u>	<u>100.0</u>

There was no material purchase and sale of quoted securities for the current period.

¹¹ Refers to instrument maturity dates; excludes equities.

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PART B – OTHER EXPLANATORY NOTES (continued)

21. BORROWINGS

The details of the Group borrowings as at 30 June 2020 are as follows:

<i>In RM Mil</i>	As at 30.6.2020	As at 31.12.2019
Non-Current		
Term loans	16,430	14,561
Lease liabilities	12,990	12,603
Notes and Bonds	47,866	21,371
Islamic financing facilities	4,177	4,887
Total non-current borrowings	81,463	53,422
Current		
Term loans	5,077	5,750
Lease liabilities	1,209	1,063
Islamic financing facilities	1,754	6,298
Revolving credits	1,306	1,347
Bankers' acceptances	1,050	449
Bank overdrafts	630	409
Total current borrowings	11,026	15,316
Total borrowings	92,489	68,738

<i>In RM Mil</i>	As at 30.6.2020	%	As at 31.12.2019	%
By Currency				
USD	73,853	79.9	50,384	73.3
RM	11,946	12.9	12,689	18.5
EUR	2,214	2.4	1,997	2.9
ZAR	1,867	2.0	1,530	2.2
CAD	1,429	1.5	803	1.2
INR	900	1.0	747	1.1
GBP	22	0.0	344	0.5
Others	258	0.3	244	0.3
	92,489	100.0	68,738	100.0
By Repayment Schedule				
< 1 year	11,026	11.9	15,316	22.3
1 to 5 years	22,688	24.5	26,370	38.3
5 to 10 years	18,498	20.0	14,154	20.6
> 10 years	40,277	43.6	12,898	18.8
	92,489	100.0	68,738	100.0

22. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the period ended 30 June 2020.

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FOR SECOND QUARTER 2020

PART B – OTHER EXPLANATORY NOTES (continued)

23. (LOSS)/PROFIT FOR THE PERIOD

<i>In RM Mil</i>	Individual quarter ended		Cumulative quarter ended	
	2020	30 June 2019	2020	30 June 2019
Included in (loss)/profit for the period are the following charges:				
Bad debt written off	-	-	31	2
Depreciation and amortisation	8,786	8,830	17,703	18,269
Loss on disposal of:				
- property, plant and equipment	1	44	3	45
- subsidiaries	-	6	-	-
Write-off of trade receivables and loss on remeasurement of finance lease receivables	-	-	935	-
Net impairment losses on:				
- property, plant and equipment	20,229	44	21,771	48
- receivables	17	-	-	-
- loan and advances to a joint venture	49	-	49	-
- intangible assets	483	-	3,668	-
Net impairment/write-off on well costs ¹²	270	271	239	448
Net loss on derivatives	-	40	-	50
Net loss on foreign exchange	14	-	-	-
Property, plant and equipment written off	-	-	-	2
and credits:				
Dividend income	25	28	32	160
Gain on bargain purchase	261	-	261	-
Gain on disposal of:				
- property, plant and equipment	25	10	53	46
- other investments	-	2	-	19
- subsidiaries	-	-	171	206
Interest income	1,277	1,840	2,704	3,682
Net gain on derivatives	114	-	125	-
Net gain on foreign exchange	-	309	143	103
Net write-back of impairment losses on receivables	-	223	39	311
Net change in contract liabilities	44	56	88	56
Reversal of inventories written down to net realisable value	996	24	1	2

24. DIVIDENDS

As disclosed in Note 6.

¹² Comprises impairment, impairment write-back and write-off of exploration expenditure under intangible assets.

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FOR SECOND QUARTER 2020

PART B – OTHER EXPLANATORY NOTES (continued)

25. EXCHANGE RATES

US dollar/RM	30.6.2020	Individual quarter ended		30.6.2020	Cumulative quarter ended	
		31.3.2020	30.6.2019		30.6.2019	31.12.2019
Average rate	4.3233	4.1795	4.1481	4.2514	4.1193	4.1423
Closing rate	4.2850	4.3275	4.1415	4.2850	4.1415	4.0995

By order of the Board

Intan Shafinas (Tuty) Hussain (LS0009774)
 Company Secretary
 Kuala Lumpur
 24 August 2020