



**PETRONAS**

# **PETRONAS Group**

## **Interim Financial Report**

**For Second Quarter 2014**

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# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



Cumulative quarter ended		Key Financial and Operational Highlights	Individual quarter ended	
30.6.2013	30.6.2014		30.6.2014	30.6.2013
151,100	<b>169,408</b>	Revenue (RM mil)	<b>85,359</b>	74,424
50,813	<b>55,267</b>	Profit Before Taxation (RM mil)	<b>28,060</b>	21,983
35,634	<b>39,815</b>	Profit After Tax (RM mil)	<b>21,060</b>	15,262
60,693	<b>69,826</b>	EBITDA (RM mil)	<b>35,195</b>	26,335
22,270	<b>30,712</b>	Capital investments (RM mil)	<b>13,378</b>	11,757
2,115	<b>2,234</b>	Crude oil, condensate and natural gas production volume ('000 boe per day)	<b>2,206</b>	2,075

### Second quarter 2014

- **PETRONAS Group's revenue for the second quarter of 2014 increased by 15%** compared with the same period in 2013 mainly due to higher oil and gas production volume and higher LNG sales volume, coupled with the effect of favourable US Dollar exchange rate movement against the Ringgit.
- **Profit Before Taxation ("PBT"), Profit After Tax ("PAT") and Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") increased by 28%, 38% and 34% respectively** compared with the corresponding quarter last year primarily due to higher revenue recorded for the quarter, negated by higher amortisation expense, higher impairment losses on property, plant and equipment, as well as lower gain on disposal of investments and property, plant and equipment in the current quarter.
- **Capital investments** in the second quarter of 2014 totalled **RM13.4 billion**, compared to RM11.8 billion in the same period last year.
- **Crude oil, condensate and natural gas production volume** in the **second quarter of 2014 was 2,206 thousand barrels of oil equivalent ("boe") per day** compared to 2,075 thousand boe per day in the corresponding quarter last year mainly due to production enhancement efforts and new production stream from Malaysia and Iraq, production resumption in South Sudan, and additional production from Canada.

### Cumulative quarter ended 30 June 2014

- **PETRONAS Group's revenue for the six months ended 30 June 2014 increased by 12%** compared with the same period in 2013 mainly due to higher oil and gas production volume, higher petroleum products and LNG trading volume, coupled with the effect of favourable US Dollar exchange rate movement against the Ringgit.
- **Profit Before Taxation ("PBT"), Profit After Tax ("PAT") and Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") increased by 9%, 12% and 15% respectively** compared with the corresponding period in 2013 primarily due to higher revenue recorded for the period, negated by higher amortisation expense as well as higher impairment losses on property, plant and equipment in the current period.
- **Capital investments** in the six months ended 30 June 2014 was **RM30.7 billion**, compared with RM22.3 billion in the same period of 2013.
- **Crude oil, condensate and natural gas production volume** for the **six months ended 30 June 2014 was 2,234 thousand boe per day** compared with 2,115 thousand boe per day in the same period last year mainly due to production enhancement efforts and new production stream from Malaysia and Iraq, production resumption in South Sudan, and additional production from Canada.

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



The Board of Directors of Petroliaam Nasional Berhad ("PETRONAS" or the "Company") is pleased to announce the following unaudited condensed consolidated financial statements of PETRONAS Group for the second quarter ended 30 June 2014 which should be read in conjunction with the Explanatory Notes on pages 6 to 19.

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

	Individual quarter ended		Cumulative quarter ended	
	2014	30 June 2013	2014	30 June 2013
<i>In RM Mil</i>				
Revenue	85,359	74,424	169,408	151,100
Cost of revenue	(53,710)	(48,148)	(106,497)	(93,581)
<b>Gross profit</b>	<b>31,649</b>	26,276	<b>62,911</b>	57,519
Selling and distribution expenses	(1,265)	(1,306)	(2,543)	(2,596)
Administration expenses <sup>1</sup>	(3,473)	(2,451)	(6,988)	(4,417)
Other expenses	(200)	(1,361)	(445)	(1,869)
Other income	1,803	1,268	3,106	2,882
<b>Operating profit</b>	<b>28,514</b>	22,426	<b>56,041</b>	51,519
Financing costs	(799)	(726)	(1,512)	(1,407)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	345	283	738	701
<b>Profit before taxation</b>	<b>28,060</b>	21,983	<b>55,267</b>	50,813
Tax expense	(7,000)	(6,721)	(15,452)	(15,179)
<b>PROFIT FOR THE PERIOD</b>	<b>21,060</b>	15,262	<b>39,815</b>	35,634
<b>Other comprehensive (expenses)/income</b>				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Net movements from exchange differences	(1,348)	3,392	(3,717)	3,525
Available-for-sale financial assets				
- Changes in fair value	378	(401)	80	(735)
- Transfer to profit or loss upon disposal	(25)	(15)	(25)	(64)
Others	25	34	77	102
<b>Total other comprehensive (expenses)/income for the period</b>	<b>(970)</b>	3,010	<b>(3,585)</b>	2,828
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>20,090</b>	18,272	<b>36,230</b>	38,462
<b>Profit attributable to:</b>				
Shareholders of the Company	18,330	12,505	34,498	30,064
Non-controlling interests	2,730	2,757	5,317	5,570
<b>PROFIT FOR THE PERIOD</b>	<b>21,060</b>	15,262	<b>39,815</b>	35,634
<b>Total comprehensive income attributable to:</b>				
Shareholders of the Company	17,594	15,229	31,289	32,584
Non-controlling interests	2,496	3,043	4,941	5,878
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>20,090</b>	18,272	<b>36,230</b>	38,462

<sup>1</sup> Includes impairment losses on property, plant and equipment and receivables (Note 22).

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30.6.2014	As at 31.12.2013
<i>In RM Mil</i>		
<b>ASSETS</b>		
Property, plant and equipment	256,316	243,537
Investment properties, land held for development and prepaid lease payments	13,578	13,598
Investments in associates and joint ventures	12,516	12,075
Intangible assets	33,176	34,364
Fund and other investments	9,876	9,252
Other non-current assets	16,773	17,288
<b>TOTAL NON-CURRENT ASSETS</b>	<b>342,235</b>	<b>330,114</b>
Trade and other inventories	15,198	16,107
Trade and other receivables	52,737	50,425
Fund and other investments	12,869	14,534
Cash and cash equivalents	120,849	117,118
Other current assets	179	362
<b>TOTAL CURRENT ASSETS</b>	<b>201,832</b>	<b>198,546</b>
<b>TOTAL ASSETS</b>	<b>544,067</b>	<b>528,660</b>
<b>EQUITY</b>		
Share capital	100	100
Reserves	345,013	335,703
<b>Total equity attributable to shareholders of the Company</b>	<b>345,113</b>	<b>335,803</b>
Non-controlling interests	37,645	36,502
<b>TOTAL EQUITY</b>	<b>382,758</b>	<b>372,305</b>
<b>LIABILITIES</b>		
Borrowings	29,385	29,002
Deferred tax liabilities	13,011	11,483
Other long term liabilities and provisions	30,126	28,506
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>72,522</b>	<b>68,991</b>
Trade and other payables	59,318	64,790
Borrowings	11,491	12,844
Taxation	4,978	4,730
Dividend payable	13,000	5,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>88,787</b>	<b>87,364</b>
<b>TOTAL LIABILITIES</b>	<b>161,309</b>	<b>156,355</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>544,067</b>	<b>528,660</b>

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



### 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	Capital Reserves	Foreign Currency Translation Reserve	Available- for-sale Reserve
<b>Cumulative quarter ended 30 June 2013</b>				
At 1 January 2013	100	13,518	(731)	2,521
Net movements from exchange differences	-	-	3,247	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	(739)
- Transfer to profit or loss upon disposal	-	-	-	(64)
Other comprehensive income	-	76	-	-
Total other comprehensive income/(expenses) for the period	-	76	3,247	(803)
Profit for the period	-	-	-	-
<b>Total comprehensive income/ (expenses) for the period</b>	-	76	3,247	(803)
Additional equity interest in a subsidiary	-	-	-	-
Dividends	-	-	-	-
Other movements	-	20	-	-
<b>Total transactions with shareholders</b>	-	20	-	-
Balance at 30 June 2013	100	13,614	2,516	1,718
<b>Cumulative quarter ended 30 June 2014</b>				
At 1 January 2014	100	13,527	7,010	1,456
Net movements from exchange differences	-	-	(3,373)	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	95
- Transfer to profit or loss upon disposal	-	-	-	(25)
Other comprehensive income/(expenses)	-	94	-	-
Total other comprehensive income/(expenses) for the period	-	94	(3,373)	70
Profit for the period	-	-	-	-
<b>Total comprehensive income/ (expenses) for the period</b>	-	94	(3,373)	70
Dividends	-	-	-	-
Other movements	-	21	-	-
<b>Total transactions with shareholders</b>	-	21	-	-
Balance at 30 June 2014	100	13,642	3,637	1,526

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## FOR SECOND QUARTER 2014



### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

<i>In RM Mil</i>	<i>Attributable to shareholders of the Company</i>				
	<u><i>Distributable</i></u>			<b>Non-controlling Interests</b>	<b>Total Equity</b>
	<b>General Reserve</b>	<b>Retained Profits</b>	<b>Total</b>		
<b>Cumulative quarter ended 30 June 2013</b>					
At 1 January 2013	12,000	279,563	306,971	32,001	338,972
Net movements from exchange differences	-	-	3,247	278	3,525
Available-for-sale financial assets:					
- Changes in fair value	-	-	(739)	4	(735)
- Transfer to profit or loss upon disposal	-	-	(64)	-	(64)
Other comprehensive income	-	-	76	26	102
Total other comprehensive income/(expenses) for the period	-	-	2,520	308	2,828
Profit for the period	-	30,064	30,064	5,570	35,634
<b>Total comprehensive income/ (expenses) for the period</b>	-	30,064	32,584	5,878	38,462
Additional equity interest in a subsidiary	-	(332)	(332)	332	-
Dividends	-	(27,000)	(27,000)	(4,002)	(31,002)
Other movements	-	-	20	-	20
<b>Total transactions with shareholders</b>	-	(27,332)	(27,312)	(3,670)	(30,982)
Balance at 30 June 2013	12,000	282,295	312,243	34,209	346,452
<b>Cumulative quarter ended 30 June 2014</b>					
At 1 January 2014	12,000	301,710	335,803	36,502	372,305
Net movements from exchange differences	-	-	(3,373)	(344)	(3,717)
Available-for-sale financial assets:					
- Changes in fair value	-	-	95	(15)	80
- Transfer to profit or loss upon disposal	-	-	(25)	-	(25)
Other comprehensive income/(expenses)	-	-	94	(17)	77
Total other comprehensive income/(expenses) for the period	-	-	(3,209)	(376)	(3,585)
Profit for the period	-	34,498	34,498	5,317	39,815
<b>Total comprehensive income/ (expenses) for the period</b>	-	34,498	31,289	4,941	36,230
Dividends	-	(22,000)	(22,000)	(3,804)	(25,804)
Other movements	-	-	21	6	27
<b>Total transactions with shareholders</b>	-	(22,000)	(21,979)	(3,798)	(25,777)
Balance at 30 June 2014	12,000	314,208	345,113	37,645	382,758

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# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Cumulative quarter ended	
	2014	30 June 2013
<i>In RM Mil</i>		
Cash receipts from customers	164,260	151,764
Cash paid to suppliers and employees	(99,899)	(89,622)
	<u>64,361</u>	<u>62,142</u>
Interest income from fund and other investments	1,554	2,153
Interest expenses paid	(1,117)	(1,231)
Taxation paid	(15,401)	(16,490)
<b>Cash flows from operating activities</b>	<u>49,397</u>	<u>46,574</u>
Acquisition of interest in a joint operation, net of cash acquired	(4,442)	-
Investment in securities	(1,096)	(1,783)
Proceeds from disposal/partial disposal of:		
- property, plant and equipment, prepaid lease payments and intangible assets	3,765	3,276
- securities and other investment	2,330	4,958
Purchase of property, plant and equipment, prepaid lease payments and intangible assets	(26,270)	(22,270)
Others	466	(1,317)
<b>Cash flows from investing activities</b>	<u>(25,247)</u>	<u>(17,136)</u>
Repayment of borrowings	(5,043)	(7,371)
Drawdown of borrowings	4,683	5,141
Dividends paid	(14,000)	(10,539)
Dividends paid to non-controlling interests	(5,334)	(4,697)
<b>Cash flows from financing activities</b>	<u>(19,694)</u>	<u>(17,466)</u>
Net increase in cash and cash equivalents	4,456	11,972
(Increase)/Decrease in deposits restricted	(142)	85
Net foreign exchange differences	(688)	1,059
Cash and cash equivalents at beginning of the period	116,435	108,627
<b>Cash and cash equivalents at end of the period</b>	<u>120,061</u>	<u>121,743</u>
<b>Cash and cash equivalents</b>		
Cash and bank balances and deposits	120,849	122,133
Short term marketable securities	494	1,140
Bank overdrafts	(757)	(923)
Less: Deposits restricted	(525)	(607)
	<u>120,061</u>	<u>121,743</u>

# INTERIM FINANCIAL REPORT FOR SECOND QUARTER 2014



## 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 2013.

The explanatory notes attached to these 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 2013.

### 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 2014 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2013 other than that disclosed in the preceding quarter report relating to adoption of Amendments to MFRSs and IC Interpretations as of 1 January 2014.

### 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 2013.

### 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 period ended 30 June 2014:

- a) the Company paid a tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM50,000 per ordinary share amounting to RM5 billion in respect of the financial year ended 31 December 2013.
- b) the Company paid a dividend of RM9 billion, being first to third payment of the approved tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM220,000 per ordinary share amounting to RM22 billion in respect of the financial year ended 31 December 2013.

The remaining amount of the tax exempt final dividend amounting to RM13 billion will be paid in instalments between July and November 2014.

On 12 August 2014, the Company declared a tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM20,000 per ordinary share amounting to RM2 billion in respect of the financial year ending 31 December 2014, which will be paid on 15 September 2014.



# INTERIM FINANCIAL REPORT FOR SECOND QUARTER 2014



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

### 7. SIGNIFICANT AND SUBSEQUENT EVENTS

#### *Sale of interest in Canadian Assets*

Further to the sale of the Group's interest in its Canadian assets as disclosed in the previous quarters' reports, in July 2014, the Group has sold an additional 15 percent interest in North Montney Joint Venture ("NMJV") British Columbia assets and in the proposed Pacific NorthWest LNG ("PNWLNG") export facility, to subsidiaries of China Petrochemical Corporation ("SINOPEC"). As part of the transaction, the purchaser has agreed to offtake the liquefied natural gas facility's production equivalent to its pro-rata interest in the partnership for a period of 20 years. With the completion of the above sales, the Group now holds 62% interest in NMJV British Columbia assets and PNWLNG export facility.

### 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 fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



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

#### 9. FAIR VALUE INFORMATION (continued)

There have been no transfers between Level 1 and Level 2 fair values during the current financial period and comparative period.

##### 30 June 2014

*In RM Mil*

	Level 1	Level 2	Total
<b>Financial assets</b>			
Quoted shares	5,952	-	5,952
Short term marketable securities	-	494	494
Quoted securities	25	591	616
Malaysian Government Securities	-	1,845	1,845
Corporate Private Debt Securities	-	4,286	4,286
Commodity swaps	-	2	2
Forward foreign exchange contracts	-	49	49
Forward gas contracts	134	-	134
Forward oil price contracts	22	-	22
	<u>6,133</u>	<u>7,267</u>	<u>13,400</u>
<b>Financial liabilities</b>			
Interest rate swaps	-	(4)	(4)
Forward foreign exchange contracts	-	(41)	(41)
Forward gas contracts	(159)	-	(159)
Forward oil price contracts	(52)	-	(52)
	<u>(211)</u>	<u>(45)</u>	<u>(256)</u>

##### 31 December 2013

*In RM Mil*

	Level 1	Level 2	Total
<b>Financial assets</b>			
Quoted shares	5,984	-	5,984
Short term marketable securities	-	233	233
Quoted securities	25	1,062	1,087
Malaysian Government Securities	-	3,231	3,231
Corporate Private Debt Securities	-	4,363	4,363
Forward foreign exchange contracts	-	115	115
Forward gas contracts	60	-	60
Forward oil price contracts	1	-	1
	<u>6,070</u>	<u>9,004</u>	<u>15,074</u>
<b>Financial liabilities</b>			
Commodity swaps	-	(25)	(25)
Interest rate swaps	-	(5)	(5)
Forward foreign exchange contracts	-	(380)	(380)
Forward gas contracts	(13)	-	(13)
Forward oil price contracts	(3)	-	(3)
	<u>(16)</u>	<u>(410)</u>	<u>(426)</u>



# INTERIM FINANCIAL REPORT FOR SECOND QUARTER 2014



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

### 10. OPERATING SEGMENTS (continued)

#### 10.2 Segment PAT

	Individual quarter ended		Cumulative quarter ended	
	2014	30 June 2013 Restated	2014	30 June 2013 Restated
<i>In RM Mil</i>				
Upstream	17,117	10,514	32,385	27,855
Downstream	1,957	2,617	3,783	4,948
Corporate and Others	1,273	1,426	2,340	1,915
Total PAT for reportable segments	20,347	14,557	38,508	34,718
Elimination of inter-segment transactions	713	705	1,307	916
Consolidated PAT	21,060	15,262	39,815	35,634

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



### PART B – OTHER EXPLANATORY NOTES

#### 11. REVIEW OF GROUP PERFORMANCE

Cumulative quarter ended		<i>In RM Mil</i>	Individual quarter ended		
30.6.2013	30.6.2014		30.6.2014	31.3.2014	30.6.2013
151,100	<b>169,408</b>	Revenue	<b>85,359</b>	84,049	74,424
35,634	<b>39,815</b>	Profit for the period	<b>21,060</b>	18,755	15,262
60,693	<b>69,826</b>	EBITDA <sup>2</sup>	<b>35,195</b>	34,631	26,335
<i>In RM Mil</i>			<b>As at</b>	<b>As at</b>	
			<b>30.6.2014</b>	<b>31.12.2013</b>	
Total assets			<b>544,067</b>	528,660	
Shareholders' equity			<b>345,113</b>	335,803	
Gearing ratio <sup>3</sup>			<b>10.6%</b>	11.1%	
ROACE <sup>4</sup>			<b>17.7%</b>	17.0%	

**Second quarter** PETRONAS Group recorded an increase in revenue to RM85.4 billion, compared with RM74.4 billion for the same period in 2013. Similarly, profit for the quarter increased to RM21.1 billion from RM15.3 billion recorded in the corresponding quarter a year ago.

Second quarter revenue benefited from higher oil and gas production volume mainly from Iraq, South Sudan and domestic fields, higher LNG sales volume on the back of stronger demand from customers, and higher processed gas sales volume driven by higher gas supply from the importation of LNG via the regasification terminal ("RGT") in Melaka, coupled with the effect of favourable US Dollar exchange rate movement against the Ringgit.

Profit and EBITDA for the quarter increased by RM5.8 billion and RM8.9 billion respectively as compared to the same period last year primarily contributed by higher revenue recorded for the quarter, partially negated by higher amortisation expense, higher impairment losses on property, plant and equipment, as well as lower gain on disposal of investments and property, plant and equipment in the current quarter.

**Cumulative quarter** PETRONAS Group recorded a 12.1% growth in revenue for the period ended 30 June 2014 at RM169.4 billion compared to RM151.1 billion a year ago mainly driven by higher oil and gas production volume from Iraq and South Sudan, higher petroleum products and LNG trading volume, and higher processed gas sales volume, coupled with the effect of favourable US Dollar exchange rate movement against the Ringgit.

Profit and EBITDA for the period increased by RM4.2 billion and RM9.1 billion respectively as compared to the same period last year primarily contributed by higher revenue recorded for the period, negated by higher amortisation expense as well as higher impairment losses on property, plant and equipment in the current period.

Total assets increased to RM544.1 billion as at 30 June 2014 as compared to RM528.7 billion as at 31 December 2013 primarily as a result of the profit generated for the period. Shareholders' equity of RM345.1 billion as at 30 June 2014 increased by RM9.3 billion compared to as at 31 December 2013 mainly due to the net impact of profit for the period attributable to shareholders of the Company and approved final dividend amounting to RM22.0 billion in respect of the financial year ended 31 December 2013.

Gearing ratio decreased to 10.6% as at 30 June 2014 compared to 11.1% as at 31 December 2013 due to lower debt following net repayment of borrowings during the period. ROACE increased to 17.7% as at 30 June 2014 compared to 17.0% as at 31 December 2013 in line with higher profit for the period as compared to the same period in 2013.

<sup>2</sup> EBITDA consists of profit before taxation and non-controlling interests, with the addition of amounts previously deducted for depreciation, amortisation and impairment loss on property, plant and equipment and intangible assets and financing costs, and the exclusion of interest income.

<sup>3</sup> Gearing ratio is calculated as total debt divided by the total of shareholders' equity and debt as at period/year end.

<sup>4</sup> Return on average capital employed (ROACE) is calculated as the annualized profit divided by average total equity and long term debt during the 12 months period.

# INTERIM FINANCIAL REPORT FOR SECOND QUARTER 2014



## PART B – OTHER EXPLANATORY NOTES (continued)

### 12. REVIEW OF PERFORMANCE - UPSTREAM

Cumulative quarter ended		<i>Financial Indicators</i>	Individual quarter ended		
30.6.2013 Restated	30.6.2014		30.6.2014	31.3.2014 Restated	30.6.2013 Restated
<i>In RM Mil</i>					
Revenue					
68,272	<b>86,969</b>	Third party	<b>43,721</b>	43,248	31,057
17,624	<b>18,579</b>	Inter-segment	<b>8,518</b>	10,061	9,010
<u>85,896</u>	<u><b>105,548</b></u>		<u><b>52,239</b></u>	<u>53,309</u>	<u>40,067</u>
27,855	<b>32,385</b>	PAT	<b>17,117</b>	15,268	10,514
Cumulative quarter ended		<i>Operational Indicators</i>	Individual quarter ended		
30.6.2013	30.6.2014		30.6.2014	31.3.2014	30.6.2013
Production <sup>5</sup> (‘000 boe <sup>6</sup> per day)					
741	<b>849</b>	Crude oil and condensate	<b>851</b>	847	740
1,374	<b>1,385</b>	Natural gas	<b>1,355</b>	1,415	1,335
<u>2,115</u>	<u><b>2,234</b></u>		<u><b>2,206</b></u>	<u>2,262</u>	<u>2,075</u>
Oil and gas entitlement <sup>7</sup> (‘000 boe <sup>6</sup> per day)					
523	<b>613</b>	Crude oil and condensate	<b>648</b>	578	517
1,018	<b>1,127</b>	Natural gas	<b>1,008</b>	1,247	901
<u>1,541</u>	<u><b>1,740</b></u>		<u><b>1,656</b></u>	<u>1,825</u>	<u>1,418</u>
2,753	<b>2,904</b>	Malaysia average sales gas volume (mmscfd) <sup>8</sup>	<b>2,960</b>	2,882	2,794
13.79	<b>15.15</b>	LNG sales volume (million tonnes)	<b>7.50</b>	7.65	6.58

**Second quarter** Revenue for the quarter ended 30 June 2014 was RM52.2 billion compared to RM40.1 billion in corresponding quarter last year. Higher revenue mainly contributed by higher entitlement volume for all products, in line with higher production. In addition, higher LNG sales volume, favourable average sales gas volume and an increase in regulated gas prices contributed to higher revenue. PAT increased to RM17.1 billion compared to RM10.5 billion in the corresponding quarter last year, mainly due to higher revenue as explained above negated by impairment, higher Iraq amortisation, higher LNG feedgas cost, Sudan’s pipeline tariff increase and its partial relinquishment.

Total production volume for the quarter was 2,206 thousand boe per day compared to 2,075 thousand boe per day in the corresponding quarter last year. Crude oil and condensate production volume was higher mainly due to production resumption in South Sudan, production enhancement efforts, and new production stream from Iraq and Malaysia. Natural gas production was higher compared to the same quarter last year mainly due to additional production from Canada, higher demand in Turkmenistan and production optimisation efforts for Sarawak operations.

Total LNG sales volume for the quarter was higher by 0.9 million tonnes or 14% as compared to the corresponding quarter in 2013 driven by higher trading volume and higher sales from PETRONAS LNG Complex (“PLC”) in Bintulu, Sarawak. Malaysia average sales gas volume was higher by 166 mmscfd or 6% compared to the corresponding period last year mainly due to higher domestic supply from Kertih, Terengganu and RGT.

<sup>5</sup> Represents Malaysia’s production and PETRONAS Group’s international equity production volume.

<sup>6</sup> boe: barrels of oil equivalent

<sup>7</sup> Represents PETRONAS Group’s entitlement to Malaysia’s production and PETRONAS Group’s international entitlement volume.

<sup>8</sup> mmscfd: million standard cubic feet per day

# INTERIM FINANCIAL REPORT FOR SECOND QUARTER 2014



## PART B – OTHER EXPLANATORY NOTES (continued)

### 12. REVIEW OF PERFORMANCE - UPSTREAM (continued)

**Cumulative quarter** Revenue for the cumulative quarter ended 30 June 2014 was RM105.5 billion compared to RM85.9 billion in the corresponding period last year. The higher revenue by 23% reflects the increase in entitlement volume for all products, in line with favourable performance in production. The increase in revenue is also supported by favourable performance of LNG sales volume, favourable average sales gas volume, higher realised LNG prices and an increase in regulated gas prices. Similarly, PAT increased by RM4.5 billion compared to the corresponding period last year in line with higher revenue as explained above, negated by impairment, higher Iraq amortisation, higher LNG feedgas cost, Sudan's pipeline tariff increase and its partial relinquishment.

Total production volume for cumulative quarter ended 30 June 2014 was 2,234 thousand boe per day compared to 2,115 thousand boe per day in the corresponding period last year. Crude oil and condensate production volume was higher mainly due to production resumption in South Sudan, production enhancement efforts and new production stream from Iraq and Malaysia. Natural gas production was higher compared to the corresponding period last year mainly due to additional production from Canada, higher demand in Turkmenistan and production optimisation efforts for Sarawak operations.

Total LNG sales volume for the period was higher by 10% as compared to the corresponding period in 2013 driven by higher trading volume and higher sales from PLC in Bintulu, Sarawak mainly to Japan and China. Malaysia average sales gas volume was higher by 151 mmscfd compared to the corresponding period last year mainly due to higher domestic supply from Kertih, Terengganu and RGT.

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



### PART B – OTHER EXPLANATORY NOTES (continued)

#### 13. REVIEW OF PERFORMANCE - DOWNSTREAM

Cumulative quarter ended		<i>Financial Indicators</i>	Individual quarter ended		
30.6.2013 Restated	30.6.2014		30.6.2014	31.3.2014 Restated	30.6.2013 Restated
		<i>In RM Mil</i>			
		Revenue			
76,332	75,741	Third party	38,154	37,587	39,899
3,071	3,526	Inter-segment	1,771	1,755	1,484
79,403	79,267		39,925	39,342	41,383
4,948	3,783	PAT	1,957	1,826	2,617

Cumulative quarter ended		<i>Operational Indicators</i>	Individual quarter ended		
30.6.2013	30.6.2014		30.6.2014	31.3.2014	30.6.2013
		Petroleum products sales volume (in million barrels)	75.3	73.3	74.7
142.9	148.6	Crude oil sales volume (in million barrels)	54.1	45.1	51.0
96.6	99.2	Petrochemicals sales volume (in million metric tonnes)	1.5	1.4	1.6
3.4	2.9				

**Second quarter** Total revenue for the quarter was RM39.9 billion, a decrease of RM1.5 billion when compared to corresponding period last year. The lower revenue was mainly due to lower crude trading and petrochemical sales volume as well as lower petrochemical average realised price.

Petroleum products sales volume was 75.3 million barrels, higher than the corresponding period last year by 0.6 million barrels resulted from higher demand.

Crude oil sales volume was higher than the corresponding period last year by 3.1 million barrels mainly due to increased marketing activities, but partially offset by lower trading volume.

Petrochemical products sales volume was slightly lower than the corresponding period last year due to lower plant production.

Downstream PAT was RM2.0 billion, lower than the corresponding period last year by RM0.7 billion mainly due to lower petrochemical margins.

**Cumulative quarter** Total revenue for the year was RM79.3 billion, lower than the revenue from the corresponding period last year mainly due to lower average realised price and lower sales volume for petrochemical products.

Petroleum products sales volume was 148.6 million barrels, higher than the corresponding period last year by 5.7 million barrels mainly contributed by higher demand.

Crude oil sales volume was 99.2 million barrels, higher than the corresponding period last year contributed by higher marketing activities offset by lower trading volume.

Petrochemical products sales volume was lower by 0.5 million metric tonnes compared to the corresponding period last year due to lower plant production.

Downstream cumulative PAT was RM3.8 billion, RM1.2 billion lower than the corresponding period last year mainly due to lower petrochemical and petroleum products margins as well as lower petrochemical products sales volume.



# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



### PART B – OTHER EXPLANATORY NOTES (continued)

#### 14. REVIEW OF PERFORMANCE - CORPORATE AND OTHERS

Cumulative quarter ended		<i>Financial Indicators</i>	Individual quarter ended		
30.6.2013 Restated	30.6.2014		30.6.2014	31.3.2014 Restated	30.6.2013 Restated
		<i>In RM Mil</i>			
		Revenue			
6,496	<b>6,698</b>	Third party	<b>3,484</b>	3,214	3,468
1,535	<b>1,771</b>	Inter-segment	<b>855</b>	916	765
<u>8,031</u>	<u><b>8,469</b></u>		<u><b>4,339</b></u>	<u>4,130</u>	<u>4,233</u>
1,915	<b>2,340</b>	PAT	<b>1,273</b>	1,067	1,426

**Second quarter** Revenue for the quarter was RM4.3 billion, marginally higher by RM0.1 billion as compared to the corresponding quarter a year ago. PAT stood at RM1.3 billion, lower by RM0.2 billion mainly due to lower fund investment income in the current quarter.

**Cumulative quarter** Revenue for the period was RM8.5 billion, higher by RM0.4 billion as compared to the same period last year mainly due to higher income from property business. PAT increased by RM0.4 billion to RM2.3 billion mainly due to higher unrealised foreign exchange gain on borrowings as a result of favourable US Dollar exchange rate movement against the Ringgit.

#### 15. COMPARISON WITH PRECEDING QUARTER'S RESULT

<i>In RM Mil</i>	Individual quarter ended	
	30.6.2014	31.3.2014
Revenue	<b>85,359</b>	84,049
Profit for the period	<b>21,060</b>	18,755
EBITDA	<b>35,195</b>	34,631

PETRONAS Group's revenue of RM85.4 billion for the quarter was marginally higher by RM1.3 billion or 1.6% as compared to the preceding quarter. The increase was primarily driven by higher crude and condensate production from domestic fields and higher LNG trading volume, partially negated by the effect of unfavourable US Dollar exchange rate movement against the Ringgit.

Profit and EBITDA increased by RM2.3 billion and RM0.6 billion respectively as compared to the preceding quarter mainly driven by higher revenue and lower depreciation expense recorded in the current quarter, negated by lower gain on disposal of investments and property, plant and equipment.

#### 16. CURRENT FINANCIAL YEAR PROSPECTS

Robust supply coupled with modest demand growth continue to pressure crude oil prices and the industry's earnings. The Board expects the overall year end performance of PETRONAS Group to be fair within the challenging business environment.

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



### PART B – OTHER EXPLANATORY NOTES (continued)

#### 17. TAXATION

<i>In RM Mil</i>	Individual quarter ended		Cumulative quarter ended	
	2014	30 June 2013	2014	30 June 2013
<b>Current tax expenses</b>				
Malaysia	5,732	7,308	14,165	15,499
Overseas	675	610	866	1,321
<b>Deferred tax expenses</b>				
Origination and reversal of temporary differences	593	(1,197)	421	(1,641)
	<b>7,000</b>	<b>6,721</b>	<b>15,452</b>	<b>15,179</b>
Effective tax rate	<b>24.9%</b>	30.6%	<b>28.0%</b>	29.9%

The Group's effective tax rate for the current quarter and period-to-date are 24.9% and 28.0% respectively. The lower effective tax rate for both periods are mainly due to higher non-assessable income and overprovision of prior year tax expense in the quarter and period-to-date.

#### 18. CASH, FUND AND OTHER INVESTMENTS

<i>In %</i>	As at 30.6.2014	As at 31.12.2013
<b>By Currency</b>		
RM	70.7	70.4
USD	26.2	24.7
Others	3.1	4.9
	<b>100.0</b>	<b>100.0</b>
<b>By Maturity<sup>9</sup></b>		
< 1 year	95.6	93.9
1 to 5 years	3.4	4.8
5 to 10 years	1.0	1.3
	<b>100.0</b>	<b>100.0</b>
<b>By Type</b>		
Money market	90.7	88.6
Government securities	1.4	2.4
Corporate bonds	3.7	4.7
Equities	4.2	4.3
	<b>100.0</b>	<b>100.0</b>

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

<sup>9</sup> Refers to instrument maturity dates; excludes equities.

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



### PART B – OTHER EXPLANATORY NOTES (continued)

#### 19. BORROWINGS

The details of the Group borrowings as at 30 June 2014 are as follows:

<i>In RM Mil</i>	As at 30.6.2014	As at 31.12.2013
<b>Non-Current</b>		
<b>Secured</b>		
Term loans	1,223	1,700
Islamic financing facilities	1,334	1,427
<b>Total non-current secured borrowings</b>	<b>2,557</b>	3,127
<b>Unsecured</b>		
Term loans	7,903	5,988
Notes and Bonds	16,405	16,802
Islamic financing facilities	2,520	3,085
<b>Total non-current unsecured borrowings</b>	<b>26,828</b>	25,875
<b>Total non-current borrowings</b>	<b>29,385</b>	29,002
<b>Current</b>		
<b>Secured</b>		
Term loans	1,056	988
Islamic financing facilities	484	339
<b>Total current secured borrowings</b>	<b>1,540</b>	1,327
<b>Unsecured</b>		
Term loans	127	291
Notes and Bonds	2,248	2,301
Islamic financing facilities	5,147	5,816
Revolving credits	1,673	2,576
Bank overdrafts	756	533
<b>Total current unsecured borrowings</b>	<b>9,951</b>	11,517
<b>Total current borrowings</b>	<b>11,491</b>	12,844
<b>Total borrowings</b>	<b>40,876</b>	41,846

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



### PART B – OTHER EXPLANATORY NOTES (continued)

#### 19. BORROWINGS (continued)

<i>In RM Mil</i>	As at		As at	
	30.6.2014	%	31.12.2013	%
<b>By Currency</b>				
USD	30,362	74.3	28,935	69.1
RM	6,361	15.6	8,191	19.6
EUR	1,918	4.7	2,144	5.1
ZAR	655	1.6	663	1.6
Others	1,580	3.8	1,913	4.6
	<b>40,876</b>	<b>100.0</b>	<b>41,846</b>	<b>100.0</b>
<b>By Repayment Schedule</b>				
< 1 year	11,491	28.1	12,844	30.7
1 to 5 years	10,597	25.9	12,057	28.8
5 to 10 years	17,163	42.0	15,299	36.6
10 to 20 years	1,625	4.0	1,646	3.9
	<b>40,876</b>	<b>100.0</b>	<b>41,846</b>	<b>100.0</b>

#### 20. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 30 June 2014.

#### 21. MATERIAL LITIGATION

The legal suit brought against the Company by the Kelantan State Government in 2010 in respect of payment of petroleum proceeds under the terms of the agreement dated 9 May 1975 entered into between the Kelantan State Government and PETRONAS is still on-going as at the reporting date. PETRONAS has been advised by its solicitors that there is no merit in the claim by the Kelantan State Government.

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2014



### PART B – OTHER EXPLANATORY NOTES (continued)

#### 22. PROFIT FOR THE PERIOD

<i>In RM Mil</i>	Individual quarter ended		Cumulative quarter ended	
	2014	30 June 2013	2014	30 June 2013
<b>Included in profit for the period are the following charges:</b>				
Bad debt written off	7	1	129	2
Depreciation and amortisation	6,805	4,963	14,092	10,611
Impairment losses on:				
- receivables	-	146	339	146
- intangible assets	68	107	84	107
- property, plant and equipment	599	2	1,110	22
Net loss on derivatives	79	325	159	322
Net loss on foreign exchange	-	598	-	820
<b>and credits:</b>				
Dividend income	62	69	69	132
Gain on disposal of investments and property, plant and equipment	21	658	510	750
Interest income	1,136	1,329	2,239	2,150
Net gain on foreign exchange	2	-	128	-
Write back of impairment losses on:				
- receivables	84	-	84	-
- intangible assets	-	66	-	66
- property, plant and equipment	-	50	-	50

#### 23. DIVIDENDS

As disclosed in Note 6.

#### 24. EXCHANGE RATES

US dollar/RM	30.6.2014	Individual quarter ended		Cumulative quarter ended		
		31.3.2014	30.6.2013	30.6.2014	30.6.2013	31.12.2013
Average rate	3.2345	3.2977	3.0711	3.2661	3.0761	3.1495
Closing rate	3.2115	3.2605	3.1775	3.2115	3.1775	3.2900

#### By order of the Board

Abdul Rahman Musa @ Onn (LS 0009706)  
 Company Secretary  
 Kuala Lumpur  
 13 August 2014