



**PETRONAS**

# **PETRONAS Group Interim Financial Report**

**For Second Quarter 2016**

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# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



Cumulative quarter ended		Key Financial and Operational Highlights	Individual quarter ended	
30.6.2015	30.6.2016		30.6.2016	30.6.2015
127,495	<b>97,566</b>	Revenue (RM mil)	<b>48,440</b>	61,304
31,564	<b>10,046</b>	Profit Before Taxation (RM mil)	<b>3,268</b>	14,613
22,467	<b>6,183</b>	Profit After Tax (RM mil)	<b>1,616</b>	11,067
(1,923)	<b>(11,556)</b>	Identified items* (RM mil)	<b>(7,734)</b>	(1,559)
24,390	<b>17,739</b>	Profit After Tax excluding identified items (RM mil)	<b>9,350</b>	12,626
41,730	<b>33,354</b>	EBITDA (RM mil)	<b>17,749</b>	19,787
34,473	<b>25,630</b>	Cash flows from operating activities (RM mil)	<b>15,879</b>	17,195
31,812	<b>25,162</b>	Capital investments (RM mil)	<b>13,909</b>	19,758
1,668	<b>1,731</b>	Crude oil, condensate and natural gas entitlement volume ('000 boe per day)	<b>1,648</b>	1,666

\*mainly comprise net impairment on assets

### Second quarter 2016

- **PETRONAS Group's revenue for the second quarter of 2016 decreased by 21%** as compared to the same period in 2015 mainly due to lower average realised prices recorded across all products following the downward trend of key benchmark prices (Dated Brent and JCC) coupled with the impact of lower crude oil and condensate, processed gas and petroleum products sales volume. The decrease was partially offset by the effect of favourable US Dollar exchange rate movement against Ringgit.
- **The Group recorded Profit Before Taxation ("PBT") of RM3.3 billion and Profit After Tax ("PAT") of RM1.6 billion for the current quarter** mainly contributed by lower revenue recorded for the quarter and higher net impairment on assets partially offset by lower product and production costs and impact of favourable foreign exchange rate. **Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") however decreased by 10%** as compared to the corresponding quarter last year primarily due to lower revenue recorded for the quarter.
- **Cash flows from operating activities decreased by 8%** as compared to the corresponding quarter last year in line with lower revenue recorded for the quarter.
- **Capital investments** in second quarter of 2016 totalled **RM13.9 billion**, mainly attributable to the Refinery and Petrochemical Integrated Development ("RAPID") project in Johor, domestic upstream capital expenditures and Sabah Ammonia Urea ("SAMUR") project.
- **Crude oil, condensate and natural gas entitlement volume in the second quarter of 2016 was 1,648 thousand barrels of oil equivalent ("boe") per day** compared with 1,666 thousand boe per day. The decrease was primarily due to lower domestic gas entitlement as a result of lower gas price. Total production volume was 2,329 thousand boe per day compared to 2,261 thousand boe per day in the same period last year.

### Cumulative quarter ended 30 June 2016

- **PETRONAS Group's revenue for the first half of 2016 decreased by 23%** as compared to the same period in 2015 mainly due to lower average realised prices recorded across all products following the downward trend of key benchmark prices (Dated Brent and JCC) coupled with the impact of lower crude oil and condensate, processed gas and petroleum products sales volume. This was partially offset by the effect of favourable US Dollar exchange rate movement against Ringgit.
- **The Group recorded PBT of RM10.0 billion and PAT of RM6.2 billion for the period ended 30 June 2016** mainly contributed by lower revenue recorded for the period and higher net impairment on assets partially offset by lower product and production costs and impact of favourable foreign exchange rate. **EBITDA for the period was RM33.4 billion, a decrease of 20%** as compared to the corresponding period last year primarily due to lower revenue recorded for the period.
- **Cash flows from operating activities decreased by 26%** as compared to the corresponding period last year.
- **Capital investments** in the first half of 2016 totalled **RM25.2 billion**, mainly attributable to the RAPID project in Johor, domestic upstream capital expenditures and SAMUR project in Sabah.
- **Crude oil, condensate and natural gas entitlement volume for the six months ended 30 June 2016 was 1,731 thousand boe per day** compared with 1,668 thousand boe per day in the same period last year in line with higher production. Total production volume was 2,391 thousand boe per day compared to 2,327 thousand boe per day in the same period last year.

# INTERIM FINANCIAL REPORT

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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 2016 which should be read in conjunction with the Explanatory Notes on pages 6 to 18.

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

	Individual quarter ended		Cumulative quarter ended	
	2016	30 June 2015	2016	30 June 2015
<i>In RM Mil</i>				
Revenue	48,440	61,304	97,566	127,495
Cost of revenue	(34,386)	(42,693)	(72,196)	(86,878)
<b>Gross profit</b>	<b>14,054</b>	18,611	<b>25,370</b>	40,617
Selling and distribution expenses	(1,366)	(1,285)	(2,729)	(2,447)
Administration expenses	(2,533)	(2,493)	(4,583)	(4,709)
Net impairment losses <sup>1</sup>	(7,156)	(497)	(8,080)	(860)
Other expenses	(408)	(1,098)	(1,265)	(2,404)
Other income	1,324	1,826	2,551	2,354
<b>Operating profit</b>	<b>3,915</b>	15,064	<b>11,264</b>	32,551
Financing costs	(860)	(737)	(1,645)	(1,406)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	213	286	427	419
<b>Profit before taxation</b>	<b>3,268</b>	14,613	<b>10,046</b>	31,564
Tax expense	(1,652)	(3,546)	(3,863)	(9,097)
<b>PROFIT FOR THE PERIOD</b>	<b>1,616</b>	11,067	<b>6,183</b>	22,467
<b>Other comprehensive income/(expenses)</b>				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Net movements from exchange differences	2,875	3,622	(12,306)	11,840
Available-for-sale financial assets				
- Changes in fair value	366	(189)	1,073	(167)
- Transfer to profit or loss	(4)	1	(4)	5
Others	(50)	126	(69)	126
<b>Total other comprehensive income/(expenses) for the period</b>	<b>3,187</b>	3,560	<b>(11,306)</b>	11,804
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE PERIOD</b>	<b>4,803</b>	14,627	<b>(5,123)</b>	34,271
<b>Profit attributable to:</b>				
Shareholders of the Company	348	9,103	3,022	18,417
Non-controlling interests	1,268	1,964	3,161	4,050
<b>PROFIT FOR THE PERIOD</b>	<b>1,616</b>	11,067	<b>6,183</b>	22,467
<b>Total comprehensive income/(expenses) attributable to:</b>				
Shareholders of the Company	3,121	12,376	(7,051)	29,010
Non-controlling interests	1,682	2,251	1,928	5,261
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE PERIOD</b>	<b>4,803</b>	14,627	<b>(5,123)</b>	34,271

<sup>1</sup> Comprises net impairment losses on property, plant and equipment, receivables, investments in associates and other investments (Note 21).

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## FOR SECOND QUARTER 2016



### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30.6.2016	As at 31.12.2015
<i>In RM Mil</i>		
<b>ASSETS</b>		
Property, plant and equipment	306,956	310,268
Investment properties, land held for development and prepaid lease payments	13,705	13,869
Investments in associates and joint ventures	13,224	13,018
Intangible assets	25,645	34,304
Fund and other investments	6,714	7,373
Other non-current assets	24,444	25,590
<b>TOTAL NON-CURRENT ASSETS</b>	<b>390,688</b>	<b>404,422</b>
Trade and other inventories	12,241	12,838
Trade and other receivables	45,062	44,979
Fund and other investments	7,556	8,583
Cash and cash equivalents	111,981	120,731
Other current assets	-	354
<b>TOTAL CURRENT ASSETS</b>	<b>176,840</b>	<b>187,485</b>
<b>TOTAL ASSETS</b>	<b>567,528</b>	<b>591,907</b>
<b>EQUITY</b>		
Share capital	100	100
Reserves	351,464	374,776
<b>Total equity attributable to shareholders of the Company</b>	<b>351,564</b>	<b>374,876</b>
Non-controlling interests	40,160	40,776
<b>TOTAL EQUITY</b>	<b>391,724</b>	<b>415,652</b>
<b>LIABILITIES</b>		
Borrowings	51,737	53,939
Deferred tax liabilities	13,376	14,526
Other long term liabilities and provisions	37,267	35,125
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>102,380</b>	<b>103,590</b>
Trade and other payables	56,096	65,219
Borrowings	3,546	3,963
Taxation	3,782	3,483
Dividend payable	10,000	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>73,424</b>	<b>72,665</b>
<b>TOTAL LIABILITIES</b>	<b>175,804</b>	<b>176,255</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>567,528</b>	<b>591,907</b>

# INTERIM FINANCIAL REPORT

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### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company			
	Non-distributable			Available-for-sale Reserve
	Share Capital	Capital Reserves	Foreign Currency Translation Reserve	
<i>In RM Mil</i>				
<b>Cumulative quarter ended 30 June 2015</b>				
Balance at 1 January 2015	100	13,622	14,250	(52)
Net movements from exchange differences	-	-	10,655	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	(167)
- Transfer to profit or loss	-	-	-	5
Other comprehensive income	-	100	-	-
Total other comprehensive income/(expenses) for the period	-	100	10,655	(162)
Profit for the period	-	-	-	-
<b>Total comprehensive income/(expenses) for the period</b>	-	100	10,655	(162)
Additional issuance of shares to non-controlling interests	-	-	-	-
Changes in ownership interest in a subsidiary	-	4	(63)	-
Redemption of redeemable preference shares in a subsidiary	-	-	-	-
Dividends	-	-	-	-
<b>Total transactions with shareholders</b>	-	4	(63)	-
Balance at 30 June 2015	100	13,726	24,842	(214)
<b>Cumulative quarter ended 30 June 2016</b>				
Balance at 1 January 2016	100	13,904	41,293	695
Net movements from exchange differences	-	-	(11,093)	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	1,074
- Transfer to profit or loss	-	-	-	(4)
Other comprehensive (expenses)/income	-	(50)	-	-
Total other comprehensive (expenses)/income for the period	-	(50)	(11,093)	1,070
Profit for the period	-	-	-	-
<b>Total comprehensive (expenses)/ income for the period</b>	-	(50)	(11,093)	1,070
Additional issuance of shares to non-controlling interests	-	-	-	-
Changes in ownership interest in a subsidiary	-	-	(166)	-
Redemption of redeemable preference shares in a subsidiary	-	-	-	-
Dividends	-	-	-	-
<b>Total transactions with shareholders</b>	-	-	(166)	-
Balance at 30 June 2016	100	13,854	30,034	1,765

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

<i>In RM Mil</i>	<i>Attributable to shareholders of the Company</i>				
	<i>Distributable</i>			<i>Non-controlling Interests</i>	<i>Total Equity</i>
	<i>General Reserve</i>	<i>Retained Profits</i>	<i>Total</i>		
<b>Cumulative quarter ended 30 June 2015</b>					
Balance at 1 January 2015	12,000	314,748	354,668	37,261	391,929
Net movements from exchange differences	-	-	10,655	1,185	11,840
Available-for-sale financial assets:					
- Changes in fair value	-	-	(167)	-	(167)
- Transfer to profit or loss	-	-	5	-	5
Other comprehensive income	-	-	100	26	126
Total other comprehensive income/(expenses) for the period	-	-	10,593	1,211	11,804
Profit for the period	-	18,417	18,417	4,050	22,467
<b>Total comprehensive income/(expenses) for the period</b>	-	18,417	29,010	5,261	34,271
Additional issuance of shares to non-controlling interests	-	-	-	37	37
Changes in ownership interest in a subsidiary	-	4,973	4,914	(298)	4,616
Redemption of redeemable preference shares in a subsidiary	-	-	-	(111)	(111)
Dividends	-	(26,000)	(26,000)	(4,314)	(30,314)
<b>Total transactions with shareholders</b>	-	(21,027)	(21,086)	(4,686)	(25,772)
Balance at 30 June 2015	12,000	312,138	362,592	37,836	400,428
<b>Cumulative quarter ended 30 June 2016</b>					
Balance at 1 January 2016	12,000	306,884	374,876	40,776	415,652
Net movements from exchange differences	-	-	(11,093)	(1,213)	(12,306)
Available-for-sale financial assets:					
- Changes in fair value	-	-	1,074	(1)	1,073
- Transfer to profit or loss	-	-	(4)	-	(4)
Other comprehensive (expenses)/income	-	-	(50)	(19)	(69)
Total other comprehensive (expenses)/income for the period	-	-	(10,073)	(1,233)	(11,306)
Profit for the period	-	3,022	3,022	3,161	6,183
<b>Total comprehensive (expenses)/ income for the period</b>	-	3,022	(7,051)	1,928	(5,123)
Additional issuance of shares to non-controlling interests	-	-	-	18	18
Changes in ownership interest in a subsidiary	-	(95)	(261)	261	-
Redemption of redeemable preference shares in a subsidiary	-	-	-	(11)	(11)
Dividends	-	(16,000)	(16,000)	(2,812)	(18,812)
<b>Total transactions with shareholders</b>	-	(16,095)	(16,261)	(2,544)	(18,805)
Balance at 30 June 2016	12,000	293,811	351,564	40,160	391,724

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### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Cumulative quarter ended	
	2016	30 June 2015
<i>In RM Mil</i>		
Cash receipts from customers	96,490	123,236
Cash paid to suppliers and employees	(65,941)	(80,350)
	<u>30,549</u>	42,886
Interest income from fund and other investments	1,670	1,731
Interest expenses paid	(1,316)	(1,003)
Taxation paid	(5,273)	(9,141)
<b>Cash flows from operating activities</b>	<u>25,630</u>	<u>34,473</u>
Acquisition of a subsidiary, net of cash acquired	(143)	-
Investment in associates and a joint venture	(329)	(1,408)
Investment in securities and other investments	(609)	(980)
Proceeds from disposal of:		
- investment in subsidiaries, net of cash disposed	14	-
- investment in an associate	4	-
- property, plant and equipment, investment properties, intangible assets, land held for development and assets classified as held for sale	993	516
- securities and other investments	2,924	3,188
Purchase of property, plant and equipment, investment properties, prepaid lease payments and intangible assets	(25,162)	(31,812)
Others	210	103
<b>Cash flows from investing activities</b>	<u>(22,098)</u>	<u>(30,393)</u>
Repayment of borrowings	(2,693)	(3,460)
Drawdown of borrowings	2,791	19,888
Dividends paid	(6,000)	(13,000)
Dividends paid to non-controlling interests	(2,810)	(4,314)
Payment to non-controlling interests on redemption of redeemable preference shares	(11)	(111)
Proceeds from shares issued to non-controlling interests	18	37
Payment to non-controlling interests on additional equity interest	-	(564)
Proceeds from partial disposal of equity interest to non-controlling interests	-	5,179
<b>Cash flows from financing activities</b>	<u>(8,705)</u>	<u>3,655</u>
Net (decrease)/increase in cash and cash equivalents	(5,173)	7,735
Decrease/(increase) in deposits restricted	224	(54)
Net foreign exchange differences	(3,540)	2,025
Cash and cash equivalents at beginning of the period	<u>120,021</u>	<u>116,727</u>
<b>Cash and cash equivalents at end of the period</b>	<u>111,532</u>	<u>126,433</u>
<b>Cash and cash equivalents</b>		
Cash and bank balances and deposits	111,981	126,881
Short term marketable securities	-	55
Bank overdrafts	(111)	(94)
Less: Deposits restricted	(338)	(409)
	<u>111,532</u>	<u>126,433</u>

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



### 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 2015.

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 2015.

#### 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 2016 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2015 other than that disclosed in the preceding quarter report relating to adoption of Amendments to MFRSs effective for annual periods beginning on or after 1 January 2016.

#### 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 2015.

#### 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 2016, the Company paid a dividend of RM6 billion, being the first to third payment of the approved tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM160,000 per ordinary share amounting to RM16 billion in respect of the financial year ended 31 December 2015.

The remaining amount of the tax exempt final dividend amounting to RM10 billion will be paid in instalments between July and November 2016.



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## FOR SECOND QUARTER 2016



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

#### 7. CHANGES IN COMPOSITION OF THE GROUP

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

#### 8. 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.

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



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

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

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

##### 30 June 2016

*In RM Mil*

	Level 1	Level 2	Total
<b>Financial assets</b>			
Quoted shares	4,275	8	4,283
Quoted securities	25	242	267
Malaysian Government Securities	-	3	3
Corporate Private Debt Securities	-	1,585	1,585
Forward foreign exchange contracts	-	10	10
Forward gas contracts	2	-	2
Forward oil price contracts	195	-	195
Interest rate swaps	-	1	1
	<u>4,497</u>	<u>1,849</u>	<u>6,346</u>
<b>Financial liabilities</b>			
Interest rate swaps	-	(31)	(31)
Forward foreign exchange contracts	-	(462)	(462)
Commodity swaps	-	(2)	(2)
Forward oil price contracts	(358)	-	(358)
	<u>(358)</u>	<u>(495)</u>	<u>(853)</u>

##### 31 December 2015

*In RM Mil*

	Level 1	Level 2	Total
<b>Financial assets</b>			
Quoted shares	3,562	28	3,590
Quoted securities	26	422	448
Malaysian Government Securities	-	3	3
Corporate Private Debt Securities	-	3,158	3,158
Commodity swaps	-	144	144
Forward foreign exchange contracts	-	27	27
Forward gas contracts	289	-	289
Forward oil price contracts	27	-	27
	<u>3,904</u>	<u>3,782</u>	<u>7,686</u>
<b>Financial liabilities</b>			
Interest rate swaps	-	(1)	(1)
Forward foreign exchange contracts	-	(761)	(761)
Commodity swaps	-	(18)	(18)
Forward gas contracts	(236)	-	(236)
Forward oil price contracts	(12)	-	(12)
	<u>(248)</u>	<u>(780)</u>	<u>(1,028)</u>

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



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

#### 9. OPERATING SEGMENTS

The Group has two reportable operating segments comprising Upstream and Downstream. Effective 1<sup>st</sup> April 2016, certain functions under Upstream and Downstream had merged into a single function named Project Delivery & Technology (“PD&T”), which is included under Corporate and Others. Corporate and Others now comprises primarily logistic and maritime segment, property segment, central treasury and PD&T function. Accordingly, the Group has restated the operating segment information for the prior periods.

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 Group chief operating decision maker, which in this case is the PETRONAS Executive Leadership Team, believes that such information is the most relevant in evaluating the results of the segments.

##### 9.1 Revenue

	2016		2015		Individual quarter ended 30 June	
	2016	2015 Restated	2016	2015 Restated	2016	2015 Restated
<i>In RM Mil</i>						
		<b>Third Parties</b>		<b>Inter-segment</b>		<b>Gross Total</b>
Upstream	21,939	27,830	6,139	6,927	28,078	34,757
Downstream	22,701	29,765	1,050	906	23,751	30,671
Corporate and Others	3,800	3,709	868	1,646	4,668	5,355
<b>Total</b>	<b>48,440</b>	<b>61,304</b>	<b>8,057</b>	<b>9,479</b>	<b>56,497</b>	<b>70,783</b>

  

	2016		2015		Cumulative quarter ended 30 June	
	2016	2015 Restated	2016	2015 Restated	2016	2015 Restated
<i>In RM Mil</i>						
		<b>Third Parties</b>		<b>Inter-segment</b>		<b>Gross Total</b>
Upstream	46,411	62,961	10,937	12,781	57,348	75,742
Downstream	43,232	56,825	2,105	1,884	45,337	58,709
Corporate and Others	7,923	7,709	2,016	3,177	9,939	10,886
<b>Total</b>	<b>97,566</b>	<b>127,495</b>	<b>15,058</b>	<b>17,842</b>	<b>112,624</b>	<b>145,337</b>

##### 9.2 Segment PAT

	Individual quarter ended 30 June		Cumulative quarter ended 30 June	
	2016	2015 Restated	2016	2015 Restated
<i>In RM Mil</i>				
Upstream	(3,709)	6,169	(1,410)	14,138
Downstream	2,258	3,285	3,542	5,154
Corporate and Others	1,025	1,371	1,388	2,208
<b>Total (LAT)<sup>2</sup>/PAT for reportable segments</b>	<b>(426)</b>	<b>10,825</b>	<b>3,520</b>	<b>21,500</b>
Elimination of inter-segment transactions	2,042	242	2,663	967
<b>Consolidated PAT</b>	<b>1,616</b>	<b>11,067</b>	<b>6,183</b>	<b>22,467</b>

<sup>2</sup> LAT: Loss After Tax

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



### PART B – OTHER EXPLANATORY NOTES

#### 10. REVIEW OF GROUP PERFORMANCE

Cumulative quarter ended			Individual quarter ended		
30.6.2015	30.6.2016	In RM Mil	30.6.2016	31.3.2016	30.6.2015
127,495	97,566	Revenue	48,440	49,126	61,304
22,467	6,183	Profit for the period	1,616	4,567	11,067
41,730	33,354	EBITDA <sup>3</sup>	17,749	15,605	19,787
<i>In RM Mil</i>				<b>As at</b>	<b>As at</b>
Total assets				<b>30.6.2016</b>	<b>31.12.2015</b>
				567,528	591,907
Shareholders' equity				351,564	374,876
Gearing ratio <sup>4</sup>				16.5%	16.0%
ROACE <sup>5</sup>				1.5%	5.1%

**Second quarter** PETRONAS Group recorded revenue of RM48.4 billion, a decrease of 21% compared to RM61.3 billion for the same period in 2015. Similarly, profit for the quarter decreased to RM1.6 billion from RM11.1 billion recorded in the corresponding quarter a year ago.

The decrease in current quarter revenue was mainly driven by lower average realised prices recorded across all products following the downward trend of key benchmark prices (Dated Brent and JCC) coupled with the impact of lower crude oil and condensate, processed gas and petroleum products sales volume. This decrease was partially offset by the effect of favourable US Dollar exchange rate movement against Ringgit.

The Group recorded a lower profit of RM1.6 billion, a decrease of 85% as compared to the profit of the same quarter last year of RM11.1 billion. This was primarily due to lower prices across all products and higher net impairment on assets partially offset by lower product and production costs and impact of favourable foreign exchange rate. EBITDA for the quarter was RM17.7 billion, a decrease of 10% as compared to the same period in 2015.

**Cumulative quarter** PETRONAS Group recorded a 23% reduction in revenue for the period ended 30 June 2016 at RM97.6 billion compared to RM127.5 billion a year ago primarily due to lower average realised prices recorded across all products following the downward trend of key benchmark prices (Dated Brent and JCC) coupled with the impact of lower crude oil and condensate, processed gas and petroleum products sales volume. This decrease was partially offset by the effect of favourable US Dollar exchange rate movement against Ringgit.

The Group generated profit of RM6.2 billion, a decrease of 72% as compared to the profit of the same period last year of RM22.5 billion. This was primarily due to lower prices across all products and higher net impairment on assets partially offset by lower product and production costs and impact of favourable foreign exchange rate. EBITDA for the period was RM33.4 billion, a decrease of 20% as compared to the same period in 2015.

Total assets decreased to RM567.5 billion as at 30 June 2016 as compared to RM591.9 billion as at 31 December 2015 primarily due to impact of weakening US Dollar exchange rate against Ringgit and lower cash balances. Shareholder's equity of RM351.6 billion as at 30 June 2016 decreased by RM23.3 billion compared to as at 31 December 2015 mainly due to approved dividend of RM16 billion in respect of the financial year ended 31 December 2015 and impact of weakening US Dollar exchange rate against Ringgit.

Gearing ratio increased to 16.5% as at 30 June 2016 compared to 16.0% as at 31 December 2015 due to lower equity following weakening US Dollar exchange rate against Ringgit. ROACE decreased to 1.5% as at 30 June 2016 compared to 5.1% as at 31 December 2015 in line with lower profit for the period as compared to the same period in 2015.

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

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

<sup>5</sup> Return on average capital employed (ROACE) is calculated as the annualised profit before interest expense after tax divided by average total equity and long term debt during the 12 months period.

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



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

#### 11. REVIEW OF PERFORMANCE – UPSTREAM

Cumulative quarter ended		<i>Financial Indicators</i>	30.6.2016	Individual quarter ended	
30.6.2015	30.6.2016			31.3.2016	30.6.2015
Restated		<i>In RM Mil</i>		Restated	Restated
		Revenue			
62,961	<b>46,411</b>	Third party	<b>21,939</b>	24,472	27,830
12,781	<b>10,937</b>	Inter-segment	<b>6,139</b>	4,798	6,927
<u>75,742</u>	<u><b>57,348</b></u>		<u><b>28,078</b></u>	<u>29,270</u>	<u>34,757</u>
14,138	<b>(1,410)</b>	(LAT)/PAT	<b>(3,709)</b>	2,299	6,169
Cumulative quarter ended		<i>Operational Indicators</i>	30.6.2016	Individual quarter ended	
30.6.2015	30.6.2016			31.3.2016	30.6.2015
		Production <sup>6</sup> ('000 boe <sup>7</sup> per day)			
961	<b>969</b>	Crude oil and condensate	<b>927</b>	1,010	948
1,366	<b>1,422</b>	Natural gas	<b>1,402</b>	1,442	1,313
<u>2,327</u>	<u><b>2,391</b></u>		<u><b>2,329</b></u>	<u>2,452</u>	<u>2,261</u>
		Oil and gas entitlement <sup>8</sup> ('000 boe per day)			
648	<b>697</b>	Crude oil and condensate	<b>674</b>	722	618
1,020	<b>1,034</b>	Natural gas	<b>974</b>	1,093	1,048
<u>1,668</u>	<u><b>1,731</b></u>		<u><b>1,648</b></u>	<u>1,815</u>	<u>1,666</u>
		Malaysia average sales gas volume (mmscfd) <sup>9</sup>			
2,790	<b>2,772</b>		<b>2,822</b>	2,722	2,945
14.96	<b>14.37</b>	LNG sales volume (million tonnes)	<b>7.02</b>	7.35	6.92

**Second quarter** Revenue for the quarter ended 30 June 2016 was RM28.1 billion compared to RM34.8 billion in the corresponding quarter last year. Lower revenue was mainly contributed by lower crude oil prices. Loss after tax of RM3.7 billion was recorded for the quarter compared to the profit after tax of RM6.2 billion in the corresponding quarter last year, mainly due to lower revenue as explained above coupled with higher net impairment on assets.

Total production volume for the quarter was 2,329 thousand boe per day compared to 2,261 thousand boe per day in the corresponding quarter last year mainly due to higher Peninsular Malaysia gas production to support shortfall in imported gas and higher facilities uptime in Malaysia and Canada, partially offset by natural decline rate.

Total LNG sales volume for the quarter was slightly higher as compared to the corresponding quarter in 2015 mainly due to new volumes from Gladstone LNG ("GLNG").

Malaysia average sales gas volume was lower by 123 mmscfd or 4.2% compared to the corresponding quarter last year mainly due to lower demand.

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

<sup>7</sup> boe: barrels of oil equivalent

<sup>8</sup> Represents PETRONAS Group's entitlement to Malaysia's production and PETRONAS Group's international entitlement volume.

<sup>9</sup> mmscfd: million standard cubic feet per day

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



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

#### 11. REVIEW OF PERFORMANCE – UPSTREAM (continued)

**Cumulative quarter** Revenue for the cumulative quarter ended 30 June 2016 was RM57.3 billion compared to RM75.7 billion in the corresponding period last year. The lower revenue reflects the decrease in crude oil prices despite higher entitlement volume in the current period. Similarly, PAT decreased by RM15.5 billion compared to the corresponding period last year mainly due to lower revenue as explained above coupled with higher net impairment on assets.

Total production volume for cumulative quarter ended 30 June 2016 was 2,391 thousand boe per day compared to 2,327 thousand boe per day in the corresponding period last year mainly due higher Peninsular Malaysia gas production to support shortfall in imported gas and higher facilities uptime in Malaysia and Canada, partially offset by natural decline rate.

Total LNG sales volume for the period was lower as compared to the corresponding period in 2015 mainly from trading volume, negated by new volumes from GLNG.

Malaysia average sales gas volume was lower by 18 mmscfd or 0.6% compared to the corresponding period last year mainly due to lower demand.

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



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

#### 12. REVIEW OF PERFORMANCE – DOWNSTREAM

Cumulative quarter ended		<i>Financial Indicators</i>	30.6.2016	Individual quarter ended	
30.6.2015	30.6.2016			31.3.2016	30.6.2015
Restated		<i>In RM Mil</i>		Restated	Restated
		Revenue			
56,825	43,232	Third party	22,701	20,531	29,765
1,884	2,105	Inter-segment	1,050	1,055	906
58,709	45,337		23,751	21,586	30,671
5,154	3,542	PAT	2,258	1,284	3,285
Cumulative quarter ended		<i>Operational Indicators</i>	30.6.2016	Individual quarter ended	
30.6.2015	30.6.2016			31.3.2016	30.6.2015
		Petroleum products sales volume (in million barrels)			
143.4	137.6	Crude oil sales volume (in million barrels)	68.6	69.0	71.0
111.4	104.0	Petrochemicals sales volume (in million metric tonnes)	48.7	55.3	53.1
3.2	3.5		1.8	1.7	1.6

**Second quarter** Revenue for the quarter was RM23.8 billion, a decrease of RM6.9 billion when compared to the corresponding quarter last year. The primary contributors to this lower revenue were lower prices for crude, petroleum and petrochemical products. In addition, volumes of crude and petroleum products sold were lower.

Petroleum products sales volume was 68.6 million barrels, lower than the corresponding quarter last year by 2.4 million barrels mainly due to lower trading volume for the quarter.

Crude oil sales volume was 48.7 million barrels, lower than the corresponding quarter last year by 4.4 million barrels also due to lower trading volumes for the quarter, partially offset by higher marketing volume.

Petrochemical products sales volume was higher by 0.2 million metric tonnes compared to the corresponding quarter last year due to better plant operating performance leading to higher production.

Downstream PAT was RM2.3 billion, lower than the corresponding quarter last year by RM1.0 billion mainly due to lower refining and marketing margins as well as lower petrochemical product spreads.

**Cumulative quarter** Revenue for the period was RM45.3 billion, RM13.4 billion lower than the revenue from the corresponding period last year mainly due to lower prices for crude, petroleum and petrochemical products. Volumes of crude and petroleum products sold were also lower.

Petroleum products sales volume was 137.6 million barrels, lower than the corresponding period last year by 5.8 million barrels, mainly due to an overall reduction in trading activities.

Crude oil sales volume was 104.0 million barrels, lower than the corresponding period last year by 7.4 million barrels due to lower trading activities, partially offset by more marketing activities.

Petrochemical products sales volume was higher by 0.3 million metric tonnes compared to the corresponding period last year due to improved plant performance leading to higher production.

Downstream cumulative PAT was RM3.5 billion, RM1.6 billion lower than the corresponding period last year mainly due to lower refining and marketing margins coupled with lower petrochemical product spreads.

# INTERIM FINANCIAL REPORT FOR SECOND QUARTER 2016



## PART B – OTHER EXPLANATORY NOTES (continued)

### 13. REVIEW OF PERFORMANCE – CORPORATE AND OTHERS

Cumulative quarter ended		<i>Financial Indicators</i>	30.6.2016	Individual quarter ended	
30.6.2015	30.6.2016			31.3.2016	30.6.2015
Restated		<i>In RM Mil</i>		Restated	Restated
		Revenue			
7,709	7,923	Third party	3,800	4,123	3,709
3,177	2,016	Inter-segment	868	1,148	1,646
10,886	9,939		4,668	5,271	5,355
2,208	1,388	PAT	1,025	363	1,371

**Second quarter** Revenue for the quarter was RM4.7 billion, lower by RM0.7 billion as compared to the corresponding quarter last year mainly due to lower inter-segment income from shipping business. PAT stood at RM1.0 billion, lower by RM0.3 billion mainly due to lower other income in the current quarter.

**Cumulative quarter** Revenue for the period was RM9.9 billion, lower by RM0.9 billion as compared to the same period last year mainly due to lower inter-segment income from shipping business. PAT decreased by RM0.8 billion to RM1.4 billion as compared to RM2.2 billion last year in line with lower revenue.

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

<i>In RM Mil</i>	Individual quarter ended	
	30.6.2016	31.3.2016
Revenue	48,440	49,126
Profit for the period	1,616	4,567
EBITDA	17,749	15,605

PETRONAS Group's revenue of RM48.4 billion for the quarter was lower by RM0.7 billion or 1% as compared to the preceding quarter. The decrease was primarily due to the impact of unfavourable US Dollar exchange rate movement against Ringgit coupled with overall lower sales volume partially offset by higher average realised prices for most products, which was in line with the increase in Dated Brent benchmark price.

Profit for the period decreased by RM3.0 billion as compared to the preceding quarter primarily due to higher net impairment on assets. EBITDA for the quarter was RM17.7 billion, an increase by 14% as compared to the preceding quarter.

### 15. CURRENT FINANCIAL YEAR PROSPECTS

Despite a modest recovery in crude oil prices, uncertainties remain due to persistent oversupply and sluggish demand outlook. PETRONAS continues to remain focused in driving efficiency efforts and fiscal discipline in this challenging industry environment. While performance for the rest of 2016 will continue to be impacted by volatility in oil prices, the financial position and liquidity of PETRONAS are expected to remain strong.



# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



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

#### 16. TAXATION

<i>In RM Mil</i>	Individual quarter ended		Cumulative quarter ended	
	2016	30 June 2015	2016	30 June 2015
<b>Current tax expenses</b>				
Malaysia	2,141	3,430	4,935	8,994
Overseas	219	302	363	477
<b>Deferred tax expenses</b>				
Origination and reversal of temporary differences	(708)	(186)	(1,435)	(374)
	<u>1,652</u>	<u>3,546</u>	<u>3,863</u>	<u>9,097</u>
Effective tax rate	50.6%	24.3%	38.5%	28.8%

The Group's effective tax rate for the current quarter and period-to-date of 50.6% and 38.5% respectively were higher than the corresponding quarter last year and period-to-date, mainly due to higher non-deductible expenses and non-assessable income.

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

<i>In %</i>	As at 30.6.2016	As at 31.12.2015
<b>By Currency</b>		
RM	63.6	60.9
USD	31.4	35.1
Others	5.0	4.0
	<u>100.0</u>	<u>100.0</u>
<b>By Maturity<sup>10</sup></b>		
< 1 year	99.4	97.5
1 to 5 years	0.2	1.7
5 to 10 years	0.4	0.8
	<u>100.0</u>	<u>100.0</u>
<b>By Type</b>		
Money market	95.6	94.4
Corporate bonds	0.8	2.9
Equities	3.6	2.7
	<u>100.0</u>	<u>100.0</u>

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

<sup>10</sup> Refers to instrument maturity dates; excludes equities.

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



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

#### 18. BORROWINGS

The details of the Group borrowings as at 30 June 2016 are as follows:

<i>In RM Mil</i>	<u>As at 30.6.2016</u>	<u>As at 31.12.2015</u>
<b>Non-Current</b>		
<b>Secured</b>		
Term loans	2,556	2,134
Islamic financing facilities	831	935
<b>Total non-current secured borrowings</b>	<u>3,387</u>	<u>3,069</u>
<b>Unsecured</b>		
Term loans	5,937	6,558
Notes and Bonds	32,919	35,167
Islamic financing facilities	9,494	9,145
<b>Total non-current unsecured borrowings</b>	<u>48,350</u>	<u>50,870</u>
<b>Total non-current borrowings</b>	<u>51,737</u>	<u>53,939</u>
<b>Current</b>		
<b>Secured</b>		
Term loans	268	203
Islamic financing facilities	306	611
<b>Total current secured borrowings</b>	<u>574</u>	<u>814</u>
<b>Unsecured</b>		
Term loans	1,290	1,142
Islamic financing facilities	52	257
Revolving credits	1,519	1,602
Bank overdrafts	111	148
<b>Total current unsecured borrowings</b>	<u>2,972</u>	<u>3,149</u>
<b>Total current borrowings</b>	<u>3,546</u>	<u>3,963</u>
<b>Total borrowings</b>	<u>55,283</u>	<u>57,902</u>

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



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

#### 18. BORROWINGS (continued)

<i>In RM Mil</i>	As at		As at	
	30.6.2016	%	31.12.2015	%
<b>By Currency</b>				
USD	45,552	82.4	47,263	81.6
RM	6,366	11.5	6,404	11.1
EUR	1,998	3.6	2,068	3.6
GBP	940	1.7	1,587	2.7
Others	427	0.8	580	1.0
	<b>55,283</b>	<b>100.0</b>	<b>57,902</b>	<b>100.0</b>
<b>By Repayment Schedule</b>				
< 1 year	3,546	6.4	3,963	6.8
1 to 5 years	26,480	47.9	27,616	47.7
5 to 10 years	17,319	31.3	17,841	30.9
> 10 years	7,938	14.4	8,482	14.6
	<b>55,283</b>	<b>100.0</b>	<b>57,902</b>	<b>100.0</b>

#### 19. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

#### 20. 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 PETRONAS has a meritorious defence to the claim.

# INTERIM FINANCIAL REPORT

## FOR SECOND QUARTER 2016



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

#### 21. PROFIT FOR THE PERIOD

<i>In RM Mil</i>	Individual quarter ended		Cumulative quarter ended	
	2016	30 June 2015	2016	30 June 2015
<b>Included in profit for the period are the following charges:</b>				
Depreciation and amortisation	6,353	5,036	12,079	10,832
Loss on disposal of:				
- intangible assets	481	-	481	-
- a subsidiary	417	-	417	-
Net impairment losses on:				
- receivables	239	1	186	245
- intangible assets	-	-	2,666	-
- property, plant and equipment	6,685	496	8,337	615
- investments in an associate	232	-	-	-
Net impairment/write-off on well costs	1,978	421	3,434	423
Net loss on derivatives	-	-	-	292
Net loss on foreign exchange	-	175	-	1,217
<b>and credits:</b>				
Dividend income	29	20	37	24
Gain on disposal of:				
- property, plant and equipment	42	27	44	51
- a subsidiary	32	-	32	-
Interest income	1,120	1,359	2,360	2,746
Net gain on derivatives	94	35	98	-
Net gain on foreign exchange	1,319	-	804	-
Net write back of impairment losses on:				
- investments in an associate	-	-	433	-
- intangible assets	52	-	-	-
- other investments	-	-	10	-

#### 22. DIVIDENDS

As disclosed in Note 6.

#### 23. EXCHANGE RATES

US dollar/RM	Individual quarter ended			Cumulative quarter ended		
	30.6.2016	31.3.2016	30.6.2015	30.6.2016	30.6.2015	31.12.2015
Average rate	4.0089	4.2029	3.6600	4.1057	3.6370	3.9032
Closing rate	4.0180	3.9330	3.7745	4.0180	3.7745	4.2940

#### By order of the Board

Ahmad Redza Abdul Wahab (MACS01577)  
Company Secretary  
Kuala Lumpur  
22 August 2016