



PETRONAS

PETRONAS Group

Interim Financial Report

For Second Quarter 2017

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INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



Cumulative quarter ended		Key Financial and Operational Highlights	Individual quarter ended	
30.6.2016	30.6.2017		30.6.2017	30.6.2016
Restated				Restated
93,701	108,151	Revenue (RM mil)	51,632	46,945
10,263	26,062	Profit Before Taxation (RM mil)	10,580	3,333
6,400	17,351	Profit After Tax (RM mil)	7,055	1,681
(11,797)	(2,940)	Identified items* (RM mil)	(2,763)	(7,975)
18,197	20,291	Profit After Tax excluding identified items (RM mil)	9,818	9,656
33,571	45,220	EBITDA (RM mil)	20,604	17,814
25,630	39,851	Cash flows from operating activities (RM mil)	21,811	15,879
25,162	21,347	Capital investments (RM mil)	9,419	13,909
		Crude oil, condensate and natural gas entitlement volume ('000 boe per day)	1,706	1,648
1,731	1,778			

*mainly comprise net impairment on assets

Second quarter 2017

- **PETRONAS Group's revenue for the second quarter of 2017 increased by 10%** as compared to the corresponding quarter last year mainly due to the impact of higher average realised prices recorded across all products following the increase in key benchmark prices (Dated Brent and JCC) coupled with the effect of weakening of Ringgit against US Dollar. The increase in revenue was partially offset by the impact of lower sales volume for crude oil & condensate and petroleum products.
- **The Group recorded Profit Before Taxation ("PBT") of RM10.6 billion and Profit After Tax ("PAT") of RM7.0 billion for the second quarter of 2017, an increase of more than 100% respectively**, compared to the corresponding quarter last year, primarily due to lower net impairment on assets and well costs coupled with higher gross profit recorded for the quarter. This was partially offset by higher net foreign exchange losses, amortisation of Oil and Gas Properties ("OGP") and the non-Final Investment Decision ("FID") costs for Pacific NorthWest LNG project in Canada. **Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") increased by 16%** compared to the corresponding quarter last year in line with higher PBT.
- **Cash flows from operating activities increased by 37%** as compared to the corresponding quarter last year due to higher average realised prices.
- **Capital investments** for the second quarter of 2017 totaled **RM9.4 billion**, mainly attributable to Refinery and Petrochemical Integrated Development ("RAPID") project in Johor.
- **Crude oil, condensate and natural gas entitlement volume for the second quarter of 2017 was 1,706 thousand barrels of oil equivalent ("boe") per day** compared to 1,648 thousand boe per day. The increase was in line with higher gas production. Total production volume was 2,297 thousand boe per day compared to 2,329 thousand boe per day in the corresponding quarter last year.

Cumulative quarter ended 30 June 2017

- **PETRONAS Group's revenue for the first half of 2017 increased by 15%** as compared to the same period in 2016 mainly due to the impact of higher average realised prices recorded across all products following the increase in key benchmark prices (Dated Brent and JCC) coupled with the effect of weakening of Ringgit against US Dollar. This was partially offset by the impact of lower sales volume for crude oil & condensate and petroleum products.
- **The Group recorded PBT of RM26.1 billion and PAT of RM17.3 billion for the period ended 30 June 2017, an increase of more than 100% respectively**, compared to the same period in 2016, primarily due to higher gross profit as well as lower net impairment on assets and well costs partially offset by higher amortisation of OGP, tax expenses, net foreign exchange losses and the non-FID costs for Pacific NorthWest LNG project in Canada. **EBITDA for the first half of 2017 was RM45.2 billion, increased by 35%** as compared to the same period in 2016 in line with higher PBT.
- **Cash flows from operating activities increased by 55%** as compared to the same period in 2016 due to higher average realised prices.
- **Capital investments** for the first half of 2017 totaled **RM21.3 billion**, mainly attributable to RAPID project in Johor.
- **Crude oil, condensate and natural gas entitlement volume for the first half of 2017 was 1,778 thousand boe per day** compared to 1,731 thousand boe per day in the same period in 2016. The increase was in line with higher gas production. Total production volume was 2,342 thousand boe per day compared to 2,391 thousand boe per day in the same period in 2016.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



The Board of Directors of Petrolia 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 2017 which should be read in conjunction with the Explanatory Notes on pages 7 to 19.

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

	Individual quarter ended		Cumulative quarter ended	
	2017	30 June 2016 Restated	2017	30 June 2016 Restated
<i>In RM Mil</i>				
Revenue	51,632	46,945	108,151	93,701
Cost of revenue	(33,336)	(32,826)	(68,280)	(68,114)
Gross profit	18,296	14,119	39,871	25,587
Selling and distribution expenses	(1,433)	(1,366)	(2,967)	(2,729)
Administration expenses	(2,593)	(2,533)	(5,540)	(4,583)
Net impairment losses ¹	(1,133)	(7,156)	(1,346)	(8,080)
Other expenses	(1,978)	(408)	(3,511)	(1,265)
Other income	810	1,324	1,600	2,551
Operating profit	11,969	3,980	28,107	11,481
Financing costs	(903)	(860)	(1,760)	(1,645)
Share of (loss)/profit after tax and non-controlling interests of equity accounted associates and joint ventures	(486)	213	(285)	427
Profit before taxation	10,580	3,333	26,062	10,263
Tax expense	(3,525)	(1,652)	(8,711)	(3,863)
PROFIT FOR THE PERIOD	7,055	1,681	17,351	6,400
Other comprehensive (expenses)/income				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Net movements from exchange differences	(4,140)	2,875	(5,592)	(12,306)
Available-for-sale financial assets				
- Changes in fair value	(294)	366	(818)	1,073
- Transfer to profit or loss	4	(4)	(39)	(4)
Others	388	(50)	510	(69)
Total other comprehensive (expenses)/income for the period	(4,042)	3,187	(5,939)	(11,306)
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE PERIOD	3,013	4,868	11,412	(4,906)
Profit attributable to:				
Shareholders of the Company	5,183	413	13,388	3,239
Non-controlling interests	1,872	1,268	3,963	3,161
PROFIT FOR THE PERIOD	7,055	1,681	17,351	6,400
Total comprehensive income/(expenses) attributable to:				
Shareholders of the Company	1,794	3,186	8,416	(6,834)
Non-controlling interests	1,219	1,682	2,996	1,928
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE PERIOD	3,013	4,868	11,412	(4,906)

¹ Comprises net impairment losses on property, plant and equipment, receivables, investments in an associate and other investments (Note 22).

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30.6.2017	As at 31.12.2016 Restated
<i>In RM Mil</i>		
ASSETS		
Property, plant and equipment	326,131	333,977
Investment properties, land held for development and prepaid lease payments	14,585	14,530
Investments in associates and joint ventures	13,383	14,030
Intangible assets	23,920	25,552
Fund and other investments	748	786
Other non-current assets	23,655	23,335
TOTAL NON-CURRENT ASSETS	402,422	412,210
Trade and other inventories	13,658	13,919
Trade and other receivables	42,614	45,990
Fund and other investments	7,742	9,477
Cash and cash equivalents	129,570	121,492
Other current assets	567	359
TOTAL CURRENT ASSETS	194,151	191,237
TOTAL ASSETS	596,573	603,447
EQUITY		
Share capital	100	100
Reserves	375,726	380,341
Total equity attributable to shareholders of the Company	375,826	380,441
Non-controlling interests	43,368	43,262
TOTAL EQUITY	419,194	423,703
LIABILITIES		
Borrowings	56,503	57,659
Deferred tax liabilities	9,075	9,635
Other long term liabilities and provisions	37,799	37,918
TOTAL NON-CURRENT LIABILITIES	103,377	105,212
Trade and other payables	53,078	62,445
Borrowings	9,159	9,954
Taxation	5,265	2,133
Dividend payable	6,500	-
TOTAL CURRENT LIABILITIES	74,002	74,532
TOTAL LIABILITIES	177,379	179,744
TOTAL EQUITY AND LIABILITIES	596,573	603,447



INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company			
	Non-distributable			
<i>In RM Mil</i>	Share Capital	Capital Reserves	Foreign Currency Translation Reserve	Available-for-sale Reserve
Cumulative quarter ended 30 June 2016				
Balance at 1 January 2016				
- As previously reported	100	13,904	41,293	695
- Effect of changes in accounting policy	-	-	-	-
At 1 January 2016, restated	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	-	(50)	-	-
Total other comprehensive (expenses)/income for the period	-	(50)	(11,093)	1,070
Profit for the period	-	-	-	-
Total comprehensive (expenses)/income for the period	-	(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	-	-	-	-
Total transactions with shareholders	-	-	(166)	-
Balance at 30 June 2016	100	13,854	30,034	1,765
Cumulative quarter ended 30 June 2017				
Balance at 1 January 2017				
- As previously reported	100	13,989	43,232	2,792
- Effect of changes in accounting policy	-	-	-	-
At 1 January 2017, restated	100	13,989	43,232	2,792
Net movements from exchange differences	-	-	(4,614)	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	(818)
- Transfer to profit or loss	-	-	-	(39)
Other comprehensive income	-	209	-	-
Total other comprehensive income/(expenses) for the period	-	209	(4,614)	(857)
Profit for the period	-	-	-	-
Total comprehensive income/(expenses) for the period	-	209	(4,614)	(857)
Additional issuance of shares to non-controlling interests	-	-	-	-
Changes in ownership interest in a subsidiary	-	(13)	25	-
Redemption of redeemable preference shares in subsidiaries	-	19	-	-
Dividends	-	-	-	-
Total transactions with shareholders	-	6	25	-
Balance at 30 June 2017	100	14,204	38,643	1,935

continue to next page

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	<i>Attributable to shareholders of the Company</i>				
	<u>Distributable</u>				
<i>In RM Mil</i>	General Reserve	Retained Profits	Total	Non-controlling Interests	Total Equity
Cumulative quarter ended 30 June 2016					
Balance at 1 January 2016					
- As previously reported	12,000	306,884	374,876	40,776	415,652
- Effect of changes in accounting policy	-	(99)	(99)	-	(99)
At 1 January 2016, restated	12,000	306,785	374,777	40,776	415,553
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	-	-	(50)	(19)	(69)
Total other comprehensive (expenses)/income for the period	-	-	(10,073)	(1,233)	(11,306)
Profit for the period	-	3,239	3,239	3,161	6,400
Total comprehensive (expenses)/income for the period	-	3,239	(6,834)	1,928	(4,906)
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)
Total transactions with shareholders	-	(16,095)	(16,261)	(2,544)	(18,805)
Balance at 30 June 2016	12,000	293,929	351,682	40,160	391,842
Cumulative quarter ended 30 June 2017					
Balance at 1 January 2017					
- As previously reported	12,000	308,173	380,286	43,262	423,548
- Effect of changes in accounting policy	-	155	155	-	155
At 1 January 2017, restated	12,000	308,328	380,441	43,262	423,703
Net movements from exchange differences	-	-	(4,614)	(978)	(5,592)
Available-for-sale financial assets:					
- Changes in fair value	-	-	(818)	-	(818)
- Transfer to profit or loss	-	-	(39)	-	(39)
Other comprehensive income	-	290	499	11	510
Total other comprehensive income/(expenses) for the period	-	290	(4,972)	(967)	(5,939)
Profit for the period	-	13,388	13,388	3,963	17,351
Total comprehensive income/(expenses) for the period	-	13,678	8,416	2,996	11,412
Additional issuance of shares to non-controlling interests	-	-	-	16	16
Changes in ownership interest in a subsidiary	-	(43)	(31)	425	394
Redemption of redeemable preference shares in subsidiaries	-	(19)	-	-	-
Dividends	-	(13,000)	(13,000)	(3,331)	(16,331)
Total transactions with shareholders	-	(13,062)	(13,031)	(2,890)	(15,921)
Balance at 30 June 2017	12,000	308,944	375,826	43,368	419,194

continued from previous page

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In RM Mil</i>	Cumulative quarter ended	
	2017	30 June 2016 Restated
Cash flows from operating activities		
Profit before taxation	26,062	10,263
Adjustments for:		
Depreciation and amortisation	17,418	12,079
Net impairment loss on property, plant and equipment	1,887	8,337
Net impairment loss on intangible assets	-	2,666
Net impairment/write-off on well costs	573	3,434
Net impairment (write back)/loss on receivables	(541)	186
Net impairment write back on investment in an associate	-	(433)
Net impairment write back on other investments	-	(10)
Share of loss/(profit) after tax and non-controlling interests of equity accounted associates and joint ventures	285	(427)
Property, plant and equipment written off	263	273
Gain on disposal of subsidiaries, an associate, other investments and property, plant and equipment	(126)	(76)
Loss on disposal of subsidiaries, property, plant and equipment and intangible assets	23	898
Net loss/(gain) on derivatives	8	(98)
Unrealised loss/(gain) on foreign exchange	1,438	(3,622)
Interest income	(2,060)	(2,360)
Interest expenses	1,760	1,645
Operating profit before changes in working capital	46,990	32,755
Net change in working capital	(2,131)	(2,206)
Cash generated from operations	44,859	30,549
Interest income from fund and other investments	1,327	1,670
Interest expenses paid	(1,418)	(1,316)
Taxation paid	(4,917)	(5,273)
Net cash generated from operating activities	39,851	25,630

continue to next page

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In RM Mil</i>	2017	Cumulative quarter ended 30 June 2016 Restated
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	-	(143)
Investment in associates and joint ventures	(297)	(329)
Investment in securities and other investments	(824)	(609)
Proceeds from disposal of:		
- investment in an associate	36	4
- property, plant and equipment, prepaid lease payments, investment properties, intangible assets, land held for development and assets classified as held for sale	215	993
- securities and other investments	1,625	2,924
Proceeds from capital reduction in an associate	12	-
Purchase of property, plant and equipment, prepaid lease payments, investment properties, intangible assets and land held for development	(21,347)	(25,162)
Dividends received	388	176
Others	-	48
Net cash used in investing activities	(20,192)	(22,098)
Cash flows from financing activities		
Repayment of borrowings	(2,619)	(2,693)
Drawdown of borrowings	2,922	2,791
Dividends paid	(6,500)	(6,000)
Dividends paid to non-controlling interests	(3,331)	(2,810)
Proceeds from shares issued to non-controlling interests	16	18
Payment to non-controlling interests on redemption of redeemable preference shares	-	(11)
Proceeds from partial disposal of equity interest to non-controlling interests	82	-
Net cash used in financing activities	(9,430)	(8,705)
Net increase/(decrease) in cash and cash equivalents	10,229	(5,173)
(Increase)/decrease in deposits restricted	(70)	224
Net foreign exchange differences	(2,148)	(3,540)
Cash and cash equivalents at beginning of the period	120,791	120,021
Cash and cash equivalents at end of the period	128,802	111,532
Cash and cash equivalents		
Cash and bank balances and deposits	129,570	111,981
Bank overdrafts	(146)	(111)
Less: Deposits restricted	(622)	(338)
	128,802	111,532

continued from previous page

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



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 2016.

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 2016.

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 2017 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2016 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 2017 and the changes below.

During the period, the Group has changed its accounting policy with respect to revenue reporting and inventory valuation for gas trading activities. Where forward and future sale and purchase contracts for gas have been determined to be for trading purposes, the associated sales and purchases are reported net within sales. Consequently, the associated inventories are stated at fair value less costs to sell and any changes in fair value are recognised in the profit or loss. The changes will provide relevant information about the effects of transactions to the Group's financial position and financial performance. The changes were accounted for retrospectively.

The changes in the accounting policies above did not have a significant impact on the Group's profit or loss and net assets. The impact of the above comparative information are set out in Appendix 1.

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 2016.

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 2017, the Company paid a dividend of RM6.5 billion, being the first to third payments of the approved tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM130,000 per ordinary share amounting to RM13 billion in respect of the financial year ended 31 December 2016.

The remaining amount of the tax exempt final dividend amounting to RM6.5 billion will be paid in instalments between July and September 2017.

Additionally, the Company declared tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM30,000 per ordinary share amounting to RM3 billion in respect of the financial year ending 31 December 2017. The financial statements for the current quarter do not reflect this interim dividend. The interim dividend will be accounted for in equity as an appropriation of retained profits in the quarter ending 30 September 2017.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



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

7. SIGNIFICANT EVENT

Non-FID of Pacific NorthWest LNG Project in Canada

Pacific NorthWest LNG (“PNWLNG”) was a liquefied natural gas export facility proposed to be situated on Lelu Island in the District of Port Edward, in northwest British Columbia. PNWLNG is majority-owned by PETRONAS. Japan Petroleum Exploration Co. Ltd, Sinopec-China Huadian, IndianOil Corporation and PetroleumBRUNEI are also partners in the PNWLNG and its associated natural gas supply. On 11th June 2015, the shareholders of PNWLNG had voted for a Conditional Final Investment Decision for the LNG project at Lelu Island (“PNWLNG Project”). However, due to the prolonged market conditions of depressed prices and external environment shift in the energy industry, PETRONAS and its partners undertook a review of the project and on 25th July 2017, decided not to proceed with the PNWLNG Project. Accordingly, the Group has recognised costs of RM1.5 billion net of tax in respect of non-FID of Pacific Northwest LNG project in Canada.

PETRONAS, along with our North Montney Joint Venture partners, remain committed to develop our significant natural gas assets in Canada and will continue to explore all options as part of our long-term investment strategy moving forward. PETRONAS’ commitment in Canada continues through Progress Energy Canada Ltd and its world-class inventory of natural gas resources where the subsidiary plays a key role in supporting PETRONAS’ growth strategy in North America.

8. CHANGES IN COMPOSITION OF THE GROUP

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

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



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

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.

30 June 2017

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	4,726	14	4,740
Quoted securities	-	1,022	1,022
Malaysian Government Securities	-	45	45
Corporate Private Debt Securities	-	3,018	3,018
Commodity swaps	-	46	46
Forward foreign exchange contracts	-	51	51
Forward gas contracts	144	-	144
Forward oil price contracts	24	-	24
Interest rate swaps	-	10	10
	4,894	4,206	9,100
Financial liabilities			
Interest rate swaps	-	(2)	(2)
Forward foreign exchange contracts	-	(22)	(22)
Forward oil price contracts	(19)	-	(19)
Forward gas contracts	(133)	-	(133)
	(152)	(24)	(176)

31 December 2016

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	5,660	36	5,696
Quoted securities	38	283	321
Malaysian Government Securities	-	47	47
Corporate Private Debt Securities	-	3,514	3,514
Commodity swaps	-	4	4
Forward foreign exchange contracts	-	17	17
Forward gas contracts	285	-	285
	5,983	3,901	9,884
Financial liabilities			
Interest rate swaps	-	(1)	(1)
Forward foreign exchange contracts	-	(162)	(162)
Commodity swaps	-	(113)	(113)
Forward oil price contracts	(536)	-	(536)
	(536)	(276)	(812)

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



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

10. OPERATING SEGMENTS

The Group has two reportable operating segments comprising Upstream and Downstream.

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.

10.1 Revenue

<i>In RM Mil</i>	2017		2016		Individual quarter ended 30 June	
	2017	2016	2017	2016	2017	2016
		Restated		Restated		Restated
	Third Parties		Inter-segment		Gross Total	
Upstream	24,264	20,444	8,148	6,139	32,412	26,583
Downstream	24,191	22,701	1,149	1,050	25,340	23,751
Corporate and Others	3,177	3,800	1,123	868	4,300	4,668
Total	51,632	46,945	10,420	8,057	62,052	55,002

<i>In RM Mil</i>	2017		2016		Cumulative quarter ended 30 June	
	2017	2016	2017	2016	2017	2016
		Restated		Restated		Restated
	Third Parties		Inter-segment		Gross Total	
Upstream	49,601	42,546	17,398	10,937	66,999	53,483
Downstream	51,172	43,232	2,250	2,105	53,422	45,337
Corporate and Others	7,378	7,923	2,116	2,016	9,494	9,939
Total	108,151	93,701	21,764	15,058	129,915	108,759

10.2 Segment PAT

<i>In RM Mil</i>	Individual quarter ended 30 June		Cumulative quarter ended 30 June	
	2017	2016	2017	2016
		Restated		Restated
Upstream	4,775	(3,644)	11,088	(1,193)
Downstream	2,253	2,258	5,110	3,542
Corporate and Others	(970)	1,025	(223)	1,388
Total PAT/(LAT)² for reportable segments	6,058	(361)	15,975	3,737
Elimination of inter-segment transactions	997	2,042	1,376	2,663
Consolidated PAT	7,055	1,681	17,351	6,400

² LAT: Loss After Tax

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



PART B – OTHER EXPLANATORY NOTES

11. REVIEW OF GROUP PERFORMANCE

Cumulative quarter ended		<i>In RM Mil</i>	30.6.2017	Individual quarter ended	
30.6.2016	30.6.2017			31.3.2017	30.6.2016
Restated				Restated	Restated
93,701	108,151	Revenue	51,632	56,519	46,945
6,400	17,351	Profit for the period	7,055	10,296	1,681
33,571	45,220	EBITDA ³	20,604	24,616	17,814
<i>In RM Mil</i>				As at	As at
				30.6.2017	31.12.2016
Total assets				596,573	603,447
Shareholders' equity				375,826	380,441
Gearing ratio ⁴				17.1%	17.4%
ROACE ⁵				8.0%	5.4%

Second quarter PETRONAS Group recorded revenue of RM51.6 billion for the second quarter of 2017, an increase of 10% compared to RM46.9 billion in the corresponding quarter last year. Similarly, profit for the quarter increased to RM7.0 billion from RM1.7 billion recorded in the corresponding quarter last year.

The increase in revenue was mainly driven by the impact of higher average realised prices recorded across all products following the increase in key benchmark prices (Dated Brent and JCC) coupled with the effect of weakening of Ringgit against US Dollar. The increase in revenue was partially offset by the impact of lower sales volume for crude oil & condensate and petroleum products.

The Group recorded a higher profit of RM7.0 billion, an increase of more than 100% as compared to the corresponding quarter last year primarily due to lower net impairment on assets and well costs coupled with higher gross profit recorded for the quarter. This was partially offset by higher net foreign exchange losses, higher amortisation of OGP arising from the changes in oil and gas reserves estimates for the purpose of amortisation computation for producing OGP, from proved and probable (2P) equity reserves to proved (1P) entitlement reserves and the non-FID costs for Pacific NorthWest LNG project in Canada. EBITDA for the quarter was RM20.6 billion, an increase of 16% as compared to the corresponding quarter last year in line with higher PBT.

Cumulative quarter PETRONAS Group recorded a 15% increase in revenue for the first half of 2017 at RM108.1 billion compared to RM93.7 billion mainly due to impact of higher average realised prices recorded across all products following the increase in key benchmark prices (Dated Brent and JCC) coupled with the effect of weakening of Ringgit against US Dollar. The increase in revenue was partially offset by the impact of lower sales volume for crude oil & condensate and petroleum products.

The Group generated profit of RM17.3 billion, an increase of more than 100% as compared to the same period in 2016 of RM6.4 billion due to higher gross profit as well as lower net impairment on assets and well costs partially offset by higher amortisation of OGP arising from the changes in oil and gas reserves estimates for the purpose of amortisation computation for producing OGP, from proved and probable (2P) equity reserves to proved (1P) entitlement reserves, higher tax expenses, higher net foreign exchange losses and the non-FID costs for Pacific NorthWest LNG project in Canada. EBITDA for the period was RM45.2 billion, an increase of 35% as compared to the same period in 2016 in line with higher PBT.

Total assets decreased to RM596.6 billion as at 30 June 2017 as compared to RM603.4 billion as at 31 December 2016 primarily due to the impact of strengthening of Ringgit against US Dollar exchange rate. Shareholders' equity of RM375.8 billion as at 30 June 2017 decreased by RM4.6 billion compared to 31 December 2016 mainly due to approved dividend of RM13.0 billion in respect of the financial year ended 31 December 2016 and effect of strengthening of Ringgit against US Dollar partially offset by profit generated during the period.

Gearing ratio decreased to 17.1% as at 30 June 2017 compared to 17.4% as at 31 December 2016 primarily contributed by lower equity following approved dividend of RM13.0 billion. ROACE increased to 8.0% as at 30 June 2017 compared to 5.4% as at 31 December 2016 in line with higher profit recorded.

³ 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.

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 trailing 12 months profit before interest expense after tax divided by average total equity and long term debt during the period.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



PART B – OTHER EXPLANATORY NOTES (continued)

12. REVIEW OF PERFORMANCE – UPSTREAM

Cumulative quarter ended		<i>Financial Indicators</i>	30.6.2017	Individual quarter ended	
30.6.2016	30.6.2017			31.3.2017	30.6.2016
Restated		<i>In RM Mil</i>		Restated	Restated
		Revenue			
42,546	49,601	Third party	24,264	25,337	20,444
10,937	17,398	Inter-segment	8,148	9,250	6,139
<u>53,483</u>	<u>66,999</u>		<u>32,412</u>	<u>34,587</u>	<u>26,583</u>
(1,193)	11,088	PAT/(LAT)	4,775	6,313	(3,644)
Cumulative quarter ended		<i>Operational Indicators</i>	30.6.2017	Individual quarter ended	
30.6.2016	30.6.2017			31.3.2017	30.6.2016
		Production ⁶ ('000 boe ⁷ per day)			
969	887	Crude oil and condensate	875	898	927
1,422	1,455	Natural gas	1,422	1,489	1,402
<u>2,391</u>	<u>2,342</u>		<u>2,297</u>	<u>2,387</u>	<u>2,329</u>
		Oil and gas entitlement ⁸ ('000 boe per day)			
697	599	Crude oil and condensate	583	615	674
1,034	1,179	Natural gas	1,123	1,235	974
<u>1,731</u>	<u>1,778</u>		<u>1,706</u>	<u>1,850</u>	<u>1,648</u>
		Malaysia average sales gas volume (mmscfd) ⁹	2,745	2,745	2,822
2,772	2,745	LNG sales volume (million tonnes)	7.19	7.50	7.02
14.37	14.69				

Second quarter Revenue for the quarter ended 30 June 2017 was RM32.4 billion compared to RM26.6 billion in the corresponding quarter last year. Higher revenue was mainly contributed by higher prices for all products. Profit after tax increased to RM4.8 billion compared to loss after tax of RM3.6 billion in the corresponding quarter last year, mainly due to higher revenue as explained above coupled with lower net impairment on assets, partially offset by higher amortisation of OGP following the change in estimates of the Group's oil and gas reserves base for the purpose of amortisation computation from proved and probable (2P) equity reserves to proved (1P) entitlement reserves. PAT is also unfavourably impacted by the non-FID of Pacific NorthWest LNG project in Canada.

Total production volume for the quarter was 2,297 thousand boe per day compared to 2,329 thousand boe per day in the corresponding quarter last year mainly due to lower Iraq production entitlement, lower activities in Canada and higher decline rate in JDA and Egypt, partially offset by higher gas availability in Sarawak.

Total LNG sales volume for the quarter was higher by 0.17 million tonnes as compared to the corresponding quarter in 2016 mainly attributable to higher volume from Train 9 in Bintulu and Egyptian LNG ("ELNG"), coupled with new volume from PETRONAS Floating LNG 1 ("PFLNG1").

Malaysia average sales gas volume was lower by 77 mmscfd or 3% compared to the corresponding quarter last year mainly due to lower demand.

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

⁹ mmscfd: million standard cubic feet per day

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



PART B – OTHER EXPLANATORY NOTES (continued)

12. REVIEW OF PERFORMANCE – UPSTREAM (continued)

Cumulative quarter Revenue for the cumulative quarter ended 30 June 2017 was RM67.0 billion compared to RM53.5 billion in the corresponding period last year due to higher realised prices for all products. PAT was higher by RM12.3 billion compared to the corresponding period last year mainly due to higher revenue as explained above coupled with lower net impairment on assets, partially offset by higher amortisation of OGP following the change in estimates of the Group's oil and gas reserves base for the purpose of amortisation computation from proved and probable (2P) equity reserves to proved (1P) entitlement reserves. PAT is also unfavourably impacted by the non-FID of Pacific NorthWest LNG project in Canada.

Total production volume for cumulative quarter ended 30 June 2017 was 2,342 thousand boe per day compared to 2,391 thousand boe per day in the corresponding period last year mainly due to lower Iraq production entitlement, lower demand in Turkmenistan, lower activities in Canada and higher decline rate in JDA and Egypt, partially offset by resumption of operation of Sabah-Sarawak Gas Pipeline ("SSGP") and higher gas availability in Sarawak.

Total LNG sales volume for the period was higher by 0.32 million tonnes as compared to the corresponding period in 2016 mainly attributable to higher volume from Train 9 in Bintulu, Gladstone LNG ("GLNG") and ELNG, coupled with new volume from PFLNG1.

Malaysia average sales gas volume was lower by 27 mmscfd or 1% compared to the corresponding period last year mainly due to lower demand.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



PART B – OTHER EXPLANATORY NOTES (continued)

13. REVIEW OF PERFORMANCE – DOWNSTREAM

Cumulative quarter ended		<i>Financial Indicators</i> <i>In RM Mil</i>	30.6.2017	Individual quarter ended	
30.6.2016	30.6.2017			31.3.2017	30.6.2016
		Revenue			
43,232	51,172	Third party	24,191	26,981	22,701
2,105	2,250	Inter-segment	1,149	1,101	1,050
45,337	53,422		25,340	28,082	23,751
3,542	5,110	PAT	2,253	2,857	2,258
Cumulative quarter ended		<i>Operational Indicators</i>	30.6.2017	Individual quarter ended	
30.6.2016	30.6.2017			31.3.2017	30.6.2016
137.6	121.2	Petroleum products sales volume (in million barrels)	59.7	61.5	68.6
103.2	66.3	Crude oil sales volume (in million barrels)	31.3	35.0	47.8
3.5	4.0	Petrochemicals sales volume (in million metric tonnes)	2.0	2.0	1.8

Second quarter Revenue for the quarter was RM25.3 billion, an increase of RM1.6 billion compared to the corresponding quarter last year mainly driven by higher prices for petroleum and petrochemical products.

Petroleum products and crude oil sales volumes were 59.7 million barrels and 31.3 million barrels respectively lower than corresponding quarter last year by 8.9 million barrels and 16.5 million barrels mainly due to lower trading volume following strategy rationalisation towards value focused activities.

Petrochemical products sales volume was higher by 0.2 million metric tonnes compared to the corresponding quarter last year mainly contributed by additional capacity from the commissioning of PETRONAS Chemical Fertiliser Sabah Sdn. Bhd. ("PCFSSB").

Downstream PAT stood at RM2.3 billion, marginally lower than the corresponding quarter last year by RM0.01 billion mainly due to lower refining margin from both domestic and international refineries, partially offset by higher petrochemical products sales volume.

Cumulative quarter Revenue for the period was RM53.4 billion, RM8.1 billion higher than the revenue from the corresponding period last year mainly due to higher prices for crude, petroleum and petrochemical products.

Petroleum products and crude oil sales volumes were 121.2 million barrels and 66.3 million barrels respectively, lower than the corresponding period last year by 16.4 million barrels and 37.0 million barrels due to reduction in marketing and trading activities.

Petrochemical products sales volume was higher by 0.5 million metric tonnes compared to the corresponding period last year mainly contributed by additional capacity from the commissioning of PCFSSB.

Downstream cumulative PAT stood at RM5.1 billion, RM1.6 billion higher than the corresponding period last year mainly contributed by better petrochemical product spreads as well as higher trading and marketing margins.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



PART B – OTHER EXPLANATORY NOTES (continued)

14. REVIEW OF PERFORMANCE – CORPORATE AND OTHERS

Cumulative quarter ended		Financial Indicators <i>In RM Mil</i>	30.6.2017	Individual quarter ended	
30.6.2016	30.6.2017			31.3.2017	30.6.2016
7,923	7,378	Revenue		4,201	3,800
2,016	2,116	Third party	3,177	993	868
9,939	9,494	Inter-segment	4,300	5,194	4,668
1,388	(223)	(LAT)/PAT	(970)	747	1,025

Second quarter Revenue for the second quarter of 2017 was RM4.3 billion, lower by RM0.4 billion or 8% as compared to the corresponding quarter last year mainly due to lower income from sale of oil and gas equipment. The segment recorded LAT of RM1.0 billion in the current quarter as compared to PAT of RM1.0 billion in the corresponding quarter last year mainly due to higher net foreign exchange losses.

Cumulative quarter Revenue for the first half of 2017 was RM9.5 billion, lower by RM0.4 billion as compared to the same period in 2016 mainly due to lower income from sale of oil and gas equipment and fund investment income partially offset by higher shipping income. LAT of RM0.2 billion for the first half of 2017 as compared to PAT of RM1.4 billion to the same period in 2016 mainly due to higher net foreign exchange losses.

15. COMPARISON WITH PRECEDING QUARTER'S RESULT

<i>In RM Mil</i>	Individual quarter ended	
	30.6.2017	31.3.2017 Restated
Revenue	51,632	56,519
Profit for the period	7,055	10,296
EBITDA	20,604	24,616

PETRONAS Group's revenue of RM51.6 billion for the second quarter of 2017 was lower by RM4.9 billion or 9% as compared to the preceding quarter. The decrease was primarily due to the impact of lower sales volume for crude oil & condensate and LNG, the effect of strengthening of Ringgit against US Dollar, coupled with lower average realised prices for major products following the decrease in key benchmark price (Dated Brent).

Profit for the period decreased by RM3.3 billion as compared to the preceding quarter primarily due to lower gross profit and non-FID costs for Pacific NorthWest LNG project in Canada partially offset by lower tax expenses. EBITDA for the second quarter of 2017 was RM20.6 billion, a decrease by 16% as compared to the preceding quarter.

16. CURRENT FINANCIAL YEAR PROSPECTS

PETRONAS continues to focus on improving operational efficiency and asset quality as well as emphasising cost optimisation. The efforts has yielded positive outcome thus far and the Board expects the overall year end performance of PETRONAS Group to be fair.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



PART B – OTHER EXPLANATORY NOTES (continued)

17. TAXATION

<i>In RM Mil</i>	Individual quarter ended		Cumulative quarter ended	
	2017	30 June 2016	2017	30 June 2016
Current tax expenses				
Malaysia	3,980	2,141	8,108	4,935
Overseas	291	219	556	363
Deferred tax expenses				
Origination and reversal of temporary differences	(746)	(708)	47	(1,435)
	<u>3,525</u>	<u>1,652</u>	<u>8,711</u>	<u>3,863</u>

The Group's effective tax rate for the current quarter and period-to-date of 33.3% and 33.4% respectively were lower than the corresponding quarter last year and period-to-date, mainly due to lower non-deductible expenses coupled with higher non-assessable income during the period in 2017.

18. CASH, FUND AND OTHER INVESTMENTS

<i>In %</i>	As at 30.6.2017	As at 31.12.2016
By Currency		
RM	58.6	56.3
USD	37.9	39.0
Others	3.5	4.7
	<u>100.0</u>	<u>100.0</u>
By Maturity¹⁰		
< 1 year	98.0	96.1
1 to 5 years	1.1	2.2
5 to 10 years	0.9	1.7
	<u>100.0</u>	<u>100.0</u>
By Type		
Money market	93.9	92.2
Corporate bonds	2.2	3.0
Equities	3.9	4.8
	<u>100.0</u>	<u>100.0</u>

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

¹⁰ Refers to instrument maturity dates; excludes equities.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



PART B – OTHER EXPLANATORY NOTES (continued)

19. BORROWINGS

The details of the Group borrowings as at 30 June 2017 are as follows:

<i>In RM Mil</i>	<u>As at 30.6.2017</u>	<u>As at 31.12.2016</u>
Non-Current		
Secured		
Term loans	2,316	2,551
Islamic financing facilities	1,024	688
Total non-current secured borrowings	<u>3,340</u>	<u>3,239</u>
Unsecured		
Term loans	8,261	7,452
Notes and Bonds	35,215	36,755
Islamic financing facilities	9,687	10,213
Total non-current unsecured borrowings	<u>53,163</u>	<u>54,420</u>
Total non-current borrowings	<u>56,503</u>	<u>57,659</u>
Current		
Secured		
Term loans	251	263
Islamic financing facilities	545	308
Total current secured borrowings	<u>796</u>	<u>571</u>
Unsecured		
Term loans	4,974	5,440
Islamic financing facilities	596	447
Revolving credits	2,647	3,345
Bank overdrafts	146	151
Total current unsecured borrowings	<u>8,363</u>	<u>9,383</u>
Total current borrowings	<u>9,159</u>	<u>9,954</u>
Total borrowings	<u>65,662</u>	<u>67,613</u>

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



PART B – OTHER EXPLANATORY NOTES (continued)

19. BORROWINGS (continued)

<i>In RM Mil</i>	As at 30.6.2017		As at 31.12.2016	
		%		%
By Currency				
USD	55,001	83.8	56,901	84.2
RM	6,968	10.6	6,943	10.3
EUR	2,157	3.3	2,080	3.1
GBP	1,131	1.7	1,220	1.8
Others	405	0.6	469	0.6
	65,662	100.0	67,613	100.0
By Repayment Schedule				
< 1 year	9,159	13.9	9,954	14.7
1 to 5 years	37,155	56.6	29,824	44.1
5 to 10 years	10,860	16.6	18,429	27.3
> 10 years	8,488	12.9	9,406	13.9
	65,662	100.0	67,613	100.0

20. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 30 June 2017.

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 PETRONAS has a meritorious defence to the claim.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



PART B – OTHER EXPLANATORY NOTES (continued)

22. PROFIT FOR THE PERIOD

<i>In RM Mil</i>	Individual quarter ended		Cumulative quarter ended	
	2017	30 June 2016	2017	30 June 2016
Included in profit for the period are the following charges:				
Depreciation and amortisation	8,698	6,353	17,418	12,079
Loss on disposal of:				
- intangible assets	-	481	7	481
- subsidiaries	-	417	-	417
- property, plant and equipment	9	-	16	-
- other investments	10	-	-	-
Net impairment losses on:				
- receivables	-	239	-	186
- intangible assets	-	-	-	2,666
- property, plant and equipment	1,876	6,685	1,887	8,337
- investments in an associate	-	232	-	-
Net impairment/write-off on well costs ¹¹	-	1,978	573	3,434
Net loss on derivatives	-	-	8	-
Net loss on foreign exchange	1,516	-	2,797	-
Property, plant and equipment written off	255	273	263	273
and credits:				
Dividend income	22	29	50	37
Gain on disposal of:				
- property, plant and equipment	12	42	48	44
- other investments	-	-	43	-
- an associate	28	-	28	-
- subsidiaries	7	32	7	32
Interest income	1,050	1,120	2,060	2,360
Net gain on derivatives	23	94	-	98
Net gain on foreign exchange	-	1,319	-	804
Net impairment/write-off on well costs ¹¹	50	-	-	-
Net write back of impairment losses on:				
- investments in an associate	-	-	-	433
- intangible assets	-	52	-	-
- receivables	743	-	541	-
- other investments	-	-	-	10

23. DIVIDENDS

As disclosed in Note 6.

24. EXCHANGE RATES

US dollar/RM	30.6.2017	Individual quarter ended		30.6.2017	Cumulative quarter ended	
		31.3.2017	30.6.2016		30.6.2016	31.12.2016
Average rate	4.3329	4.4472	4.0089	4.3900	4.1057	4.3214
Closing rate	4.2950	4.4240	4.0180	4.2950	4.0180	4.4845

By order of the Board

Halimatun Sa'adiah Abd Halim (LS0008494)
Company Secretary
Kuala Lumpur
22 August 2017

¹¹ Comprises impairment and write-off of exploration expenditure under intangible assets.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



APPENDIX 1 – IMPACT OF THE CHANGES IN ACCOUNTING POLICY

- a) Reconciliation of consolidated statement of profit or loss and other comprehensive income for individual quarter ended 30 June 2016

	As previously reported	Effect of changes in accounting policy	As restated
<i>In RM Mil</i>			
Revenue	48,440	(1,495)	46,945
Cost of revenue	(34,386)	1,560	(32,826)
Gross profit	14,054	65	14,119
Operating profit	3,915	65	3,980
Profit before taxation	3,268	65	3,333
PROFIT FOR THE PERIOD	1,616	65	1,681

- b) Reconciliation of consolidated statement of profit or loss and other comprehensive income for cumulative quarter ended 30 June 2016

	As previously reported	Effect of changes in accounting policy	As restated
<i>In RM Mil</i>			
Revenue	97,566	(3,865)	93,701
Cost of revenue	(72,196)	4,082	(68,114)
Gross profit	25,370	217	25,587
Operating profit	11,264	217	11,481
Profit before taxation	10,046	217	10,263
PROFIT FOR THE PERIOD	6,183	217	6,400

- c) Reconciliation of consolidated statement of profit or loss and other comprehensive income for the first quarter ended 31 March 2017

	As previously reported	Effect of changes in accounting policy	As restated
<i>In RM Mil</i>			
Revenue	61,655	(5,136)	56,519
Cost of revenue	(40,080)	5,136	(34,944)
Gross profit	21,575	-	21,575
Operating profit	16,138	-	16,138
Profit before taxation	15,482	-	15,482
PROFIT FOR THE PERIOD	10,296	-	10,296

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



APPENDIX 1 – IMPACT OF THE CHANGES IN ACCOUNTING POLICY (continued)

d) Reconciliation of consolidated statement of financial position as at 31 December 2016

	As previously reported	Effect of changes in accounting policy	As restated
<i>In RM Mil</i>			
ASSETS			
TOTAL NON-CURRENT ASSETS	412,210	-	412,210
Trade & Other Inventories	13,764	155	13,919
Other Current Assets	177,318	-	177,318
TOTAL CURRENT ASSETS	191,082	155	191,237
TOTAL ASSETS	603,292	155	603,447
EQUITY			
Share Capital	100	-	100
Retained Earnings	308,173	155	308,328
Other Reserves	115,275	-	115,275
TOTAL EQUITY	423,548	155	423,703
TOTAL LIABILITIES	179,744	-	179,744
TOTAL EQUITY AND LIABILITIES	603,292	155	603,447

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2017



APPENDIX 1 – IMPACT OF THE CHANGES IN ACCOUNTING POLICY (continued)

e) Reconciliation of consolidated statement of cash flows as at 30 June 2016

	As previously reported	Effect of changes in accounting policy	As restated
<i>In RM Mil</i>			
Cash flows from operating activities			
Profit before taxation	10,046	217	10,263
Adjustments for non-cash items	22,492	-	22,492
Operating profit before changes in working capital	32,538	217	32,755
Change in trade inventories	597	(217)	380
Other changes in working capital	(2,586)	-	(2,586)
Cash generated from operations	30,549	-	30,549
Net cash generated from operating activities	25,630	-	25,630
Cash flows from investing activities			
Net cash used in investing activities	(22,098)	-	(22,098)
Cash flows from financing activities			
Net cash used in financing activities	(8,705)	-	(8,705)
Net decrease in cash and cash equivalents	(5,173)	-	(5,173)
Decrease in deposit restricted	224	-	224
Net foreign exchange differences	(3,540)	-	(3,540)
Cash and cash equivalents at beginning of the period	120,021	-	120,021
Cash and cash equivalents at end of the period	111,532	-	111,532