



PETRONAS

PETRONAS Group Interim Financial Report

For Third Quarter 2016

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INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2016



Cumulative quarter ended		Key Financial and Operational Highlights	Individual quarter ended		
30.9.2015	30.9.2016		30.9.2016	30.6.2016	30.9.2015
187,559	146,307	Revenue (RM mil)	48,741	48,440	60,064
35,459	18,055	Profit Before Taxation (RM mil)	8,009	3,268	3,895
23,818	12,253	Profit After Tax (RM mil)	6,070	1,616	1,351
(6,992)	(12,578)	Identified items* (RM mil)	(1,022)	(7,734)	(4,977)
		Profit After Tax excluding			
30,810	24,831	identified items (RM mil)	7,092	9,350	6,328
56,278	48,505	EBITDA (RM mil)	15,151	17,749	14,548
		Cash flows from operating			
51,202	36,132	activities (RM mil)	10,502	15,879	16,729
49,674	35,938	Capital investments (RM mil)	10,776	13,909	17,862
		Crude oil, condensate and natural gas			
1,609	1,755	entitlement volume ('000 boe per day)	1,802	1,648	1,492

*mainly comprise net impairment on assets

Third quarter 2016

- **PETRONAS Group's revenue for the third quarter of 2016 decreased by 19%** 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 petroleum products and crude oil and condensate sales volume.
- **The Group recorded Profit Before Taxation ("PBT") of RM8.0 billion and Profit After Tax ("PAT") of RM6.1 billion for the current quarter** mainly contributed by lower product and production costs, impact of favourable foreign exchange rate and lower net impairment on assets and well costs partially offset by lower average realised prices recorded across all products. **Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") increased by 4%** as compared to the corresponding quarter last year mainly contributed by lower net foreign exchange loss in the current quarter.
- **Cash flows from operating activities decreased by 37%** as compared to the corresponding quarter last year in line with lower revenue recorded for the quarter.
- **Capital investments** in third quarter of 2016 totalled **RM10.8 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 third quarter of 2016 was 1,802 thousand barrels of oil equivalent ("boe") per day** compared with 1,492 thousand boe per day. The increase was in line with higher production. Total production volume was 2,227 thousand boe per day compared to 2,182 thousand boe per day in the same period last year.

Cumulative quarter ended 30 September 2016

- **PETRONAS Group's revenue in the nine months ended 30 September 2016 decreased by 22%** 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 petroleum products, crude oil and condensate and processed gas sales volume. This was partially offset by the effect of favourable US Dollar exchange rate movement against Ringgit.
- **The Group recorded PBT of RM18.1 billion and PAT of RM12.3 billion for the period ended 30 September 2016** mainly contributed by lower revenue recorded for the period and higher net impairment on assets and well costs partially offset by lower product and production costs and impact of favourable foreign exchange rate. **EBITDA for the period was RM48.5 billion, a decrease of 14%** as compared to the corresponding period last year primarily due to lower revenue recorded for the period.
- **Cash flows from operating activities decreased by 29%** as compared to the corresponding period last year.
- **Capital investments** in the nine months ended 30 September 2016 totalled **RM35.9 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 nine months ended 30 September 2016 was 1,755 thousand boe per day** compared with 1,609 thousand boe per day in the same period last year in line with higher production. Total production volume was 2,336 thousand boe per day compared to 2,278 thousand boe per day in the same period last year.

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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 third quarter ended 30 September 2016 which should be read in conjunction with the Explanatory Notes on pages 7 to 20.

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

	Individual quarter ended		Cumulative quarter ended	
	2016	2015	2016	2015
<i>In RM Mil</i>				
Revenue	48,741	60,064	146,307	187,559
Cost of revenue	(37,051)	(41,791)	(109,247)	(128,669)
Gross profit	11,690	18,273	37,060	58,890
Selling and distribution expenses	(1,269)	(1,307)	(3,998)	(3,754)
Administration expenses	(1,748)	(2,564)	(6,331)	(7,273)
Net impairment losses ¹	(395)	(5,428)	(8,475)	(6,288)
Other expenses	(492)	(4,638)	(1,480)	(7,042)
Other income	623	208	2,897	2,562
Operating profit	8,409	4,544	19,673	37,095
Financing costs	(697)	(1,032)	(2,342)	(2,438)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	297	383	724	802
Profit before taxation	8,009	3,895	18,055	35,459
Tax expense	(1,939)	(2,544)	(5,802)	(11,641)
PROFIT FOR THE PERIOD	6,070	1,351	12,253	23,818
Other comprehensive income/(expenses)				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Net movements from exchange differences	5,208	33,855	(7,098)	45,695
Available-for-sale financial assets				
- Changes in fair value	359	(891)	1,432	(1,058)
- Transfer to profit or loss upon disposal	(1)	-	(5)	5
Others	178	252	109	378
Total other comprehensive income/(expenses) for the period	5,744	33,216	(5,562)	45,020
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	11,814	34,567	6,691	68,838
Profit/(loss) attributable to:				
Shareholders of the Company	4,509	(565)	7,531	17,852
Non-controlling interests	1,561	1,916	4,722	5,966
PROFIT FOR THE PERIOD	6,070	1,351	12,253	23,818
Total comprehensive income attributable to:				
Shareholders of the Company	9,608	29,318	2,557	58,328
Non-controlling interests	2,206	5,249	4,134	10,510
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	11,814	34,567	6,691	68,838

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30.9.2016	As at 31.12.2015
<i>In RM Mil</i>		
ASSETS		
Property, plant and equipment	318,497	310,268
Investment properties, land held for development and prepaid lease payments	13,612	13,869
Investments in associates and joint ventures	13,525	13,018
Intangible assets	23,699	34,304
Fund and other investments	1,257	7,373
Other non-current assets	24,683	25,590
TOTAL NON-CURRENT ASSETS	395,273	404,422
Trade and other inventories	12,255	12,838
Trade and other receivables	47,269	44,979
Fund and other investments	11,854	8,583
Cash and cash equivalents	114,649	120,731
Other current assets	-	354
TOTAL CURRENT ASSETS	186,027	187,485
TOTAL ASSETS	581,300	591,907
EQUITY		
Share capital	100	100
Reserves	361,569	374,776
Total equity attributable to shareholders of the Company	361,669	374,876
Non-controlling interests	41,254	40,776
TOTAL EQUITY	402,923	415,652
LIABILITIES		
Borrowings	53,592	53,939
Deferred tax liabilities	13,189	14,526
Other long term liabilities and provisions	38,099	35,125
TOTAL NON-CURRENT LIABILITIES	104,880	103,590
Trade and other payables	58,401	65,219
Borrowings	9,172	3,963
Taxation	1,924	3,483
Dividend payable	4,000	-
TOTAL CURRENT LIABILITIES	73,497	72,665
TOTAL LIABILITIES	178,377	176,255
TOTAL EQUITY AND LIABILITIES	581,300	591,907

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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>				
Cumulative quarter ended 30 September 2015				
Balance at 1 January 2015	100	13,622	14,250	(52)
Net movements from exchange differences	-	-	41,228	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	(1,056)
- Transfer to profit or loss upon disposal	-	-	-	5
Other comprehensive income	-	299	-	-
Total other comprehensive income/(expenses) for the period	-	299	41,228	(1,051)
Profit for the period	-	-	-	-
Total comprehensive income/(expenses) for the period	-	299	41,228	(1,051)
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	-	-	-	-
Total transactions with shareholders	-	4	(63)	-
Balance at 30 September 2015	100	13,925	55,415	(1,103)
Cumulative quarter ended 30 September 2016				
Balance at 1 January 2016	100	13,904	41,293	695
Net movements from exchange differences	-	-	(6,519)	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	1,434
- Transfer to profit or loss upon disposal	-	-	-	(5)
Other comprehensive income/(expenses)	-	116	-	-
Total other comprehensive income/(expenses) for the period	-	116	(6,519)	1,429
Profit for the period	-	-	-	-
Total comprehensive income/(expenses) for the period	-	116	(6,519)	1,429
Additional issuance of shares to non-controlling interests	-	-	-	-
Changes in ownership interest in subsidiaries	-	-	(235)	-
Redemption of redeemable preference shares in a subsidiary	-	-	-	-
Dividends	-	-	-	-
Total transactions with shareholders	-	-	(235)	-
Balance at 30 September 2016	100	14,020	34,539	2,124

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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>Non-controlling Interests</i>	<i>Total Equity</i>
	<i>General Reserve</i>	<i>Retained Profits</i>	<i>Total</i>		
	<i>Distributable</i>				
Cumulative quarter ended 30 September 2015					
Balance at 1 January 2015	12,000	314,748	354,668	37,261	391,929
Net movements from exchange differences	-	-	41,228	4,467	45,695
Available-for-sale financial assets:					
- Changes in fair value	-	-	(1,056)	(2)	(1,058)
- Transfer to profit or loss upon disposal	-	-	5	-	5
Other comprehensive income	-	-	299	79	378
Total other comprehensive income/(expenses) for the period	-	-	40,476	4,544	45,020
Profit for the period	-	17,852	17,852	5,966	23,818
Total comprehensive income/(expenses) for the period	-	17,852	58,328	10,510	68,838
Additional issuance of shares to non-controlling interests	-	-	-	71	71
Changes in ownership interest in a subsidiary	-	4,978	4,919	(304)	4,615
Redemption of redeemable preference shares in a subsidiary	-	-	-	(111)	(111)
Dividends	-	(26,000)	(26,000)	(5,540)	(31,540)
Total transactions with shareholders	-	(21,022)	(21,081)	(5,884)	(26,965)
Balance at 30 September 2015	12,000	311,578	391,915	41,887	433,802
Cumulative quarter ended 30 September 2016					
Balance at 1 January 2016	12,000	306,884	374,876	40,776	415,652
Net movements from exchange differences	-	-	(6,519)	(579)	(7,098)
Available-for-sale financial assets:					
- Changes in fair value	-	-	1,434	(2)	1,432
- Transfer to profit or loss upon disposal	-	-	(5)	-	(5)
Other comprehensive income/(expenses)	-	-	116	(7)	109
Total other comprehensive income/(expenses) for the period	-	-	(4,974)	(588)	(5,562)
Profit for the period	-	7,531	7,531	4,722	12,253
Total comprehensive income/(expenses) for the period	-	7,531	2,557	4,134	6,691
Additional issuance of shares to non-controlling interests	-	-	-	25	25
Changes in ownership interest in subsidiaries	-	471	236	643	879
Redemption of redeemable preference shares in a subsidiary	-	-	-	(25)	(25)
Dividends	-	(16,000)	(16,000)	(4,299)	(20,299)
Total transactions with shareholders	-	(15,529)	(15,764)	(3,656)	(19,420)
Balance at 30 September 2016	12,000	298,886	361,669	41,254	402,923

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Cumulative quarter ended	
	2016	30 September 2015
<i>In RM Mil</i>		
Profit before tax	18,055	35,459
Adjustments for:		
Depreciation and amortisation	18,319	16,807
Net impairment loss on property, plant and equipment	8,975	5,474
Net impairment loss on intangible assets	2,654	197
Net impairment/write-off on well costs	5,507	908
Net impairment (write back)/loss on receivables	(71)	244
Net impairment (write back)/loss on investment in associates	(419)	570
Net impairment write back on other investments	(10)	-
Share of profit of equity accounted associates and joint ventures	(724)	(802)
Interest income	(3,440)	(4,003)
Interest expenses	2,342	2,438
Gain on disposal of a subsidiary, an associate and a joint venture, other investments and property, plant and equipment	(53)	(57)
Loss on disposal of a subsidiary and intangible assets	874	-
Net (gain)/loss on derivatives	(111)	926
Unrealised foreign exchange differences	(3,084)	8,927
Operating profit before changes in working capital	48,814	67,088
Net increase in working capital	(3,024)	(3,685)
Cash generated from operations	45,790	63,403
Interest income from fund and other investments	2,651	3,554
Interest expenses paid	(1,921)	(1,835)
Taxation paid	(10,388)	(13,920)
Cash flows from operating activities	36,132	51,202
Acquisition of a subsidiary, net of cash acquired	(199)	-
Investment in associates and a joint venture	(573)	(3,319)
Investment in securities and other investments	(832)	(1,202)
Proceeds from disposal of:		
- investment in subsidiaries, net of cash disposed	13	-
- investment in an associate	4	-
- property, plant and equipment, investment properties, intangible assets, land held for development and assets classified as held for sale	1,053	726
- securities and other investments	5,083	4,251
Purchase of property, plant and equipment, investment properties, prepaid lease payments and intangible assets	(35,938)	(49,674)
Proceeds from capital reduction in joint ventures	43	-
Dividend received	583	671
Others	(11)	367
Cash flows from investing activities	(30,774)	(48,180)

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Cumulative quarter ended	
	2016	30 September 2015
<i>In RM Mil</i>		
Repayment of borrowings	(3,416)	(6,876)
Drawdown of borrowings	9,316	21,987
Dividends paid	(12,000)	(20,000)
Dividends paid to non-controlling interests	(3,815)	(5,540)
Payment to non-controlling interests on redemption of redeemable preference shares	(25)	(111)
Proceeds from shares issued to non-controlling interests	25	71
Payment to non-controlling interests on additional equity interest	-	(564)
Proceeds from partial disposal of equity interest to non-controlling interests	879	5,179
Cash flows from financing activities	(9,036)	(5,854)
Net decrease in cash and cash equivalents	(3,678)	(2,832)
Decrease/(increase) in deposits restricted	283	(117)
Net foreign exchange differences	(2,399)	10,934
Cash and cash equivalents at beginning of the period	120,021	116,727
Cash and cash equivalents at end of the period	114,227	124,712
Cash and cash equivalents		
Cash and bank balances and deposits	114,649	125,260
Short term marketable securities	-	55
Bank overdrafts	(143)	(131)
Less: Deposits restricted	(279)	(472)
	114,227	124,712

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PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*. The results for this interim period are unaudited and should be read in conjunction with the Group's audited consolidated financial statements and the accompanying notes for the year ended 31 December 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 first 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 September 2016, the Company paid a dividend of RM12 billion, being the first to sixth 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 RM4 billion will be paid in instalments between October and November 2016.

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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.

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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 September 2016

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	4,736	41	4,777
Quoted securities	28	269	297
Malaysian Government Securities	-	1,574	1,574
Corporate Private Debt Securities	-	5,018	5,018
Commodity swaps	-	11	11
Forward foreign exchange contracts	-	20	20
Forward gas contracts	134	-	134
Forward oil price contracts	9	-	9
	<u>4,907</u>	<u>6,933</u>	<u>11,840</u>
Financial liabilities			
Interest rate swaps	-	(22)	(22)
Forward foreign exchange contracts	-	(490)	(490)
Commodity swaps	-	(43)	(43)
Forward gas contracts	(163)	-	(163)
Forward oil price contracts	(22)	-	(22)
	<u>(185)</u>	<u>(555)</u>	<u>(740)</u>

31 December 2015

In RM Mil

	Level 1	Level 2	Total
Financial assets			
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>
Financial liabilities			
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>

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

9. OPERATING SEGMENTS

The Group has two reportable operating segments comprising Upstream and Downstream. Effective 1st 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 September	
	2016	2015	2016	2015	2016	2015
		Restated		Restated		Restated
<i>In RM Mil</i>	Third Parties		Inter-segment		Gross Total	
Upstream	23,421	28,645	5,680	5,887	29,101	34,532
Downstream	21,860	27,784	1,197	843	23,057	28,627
Corporate and Others	3,460	3,635	1,115	1,448	4,575	5,083
Total	48,741	60,064	7,992	8,178	56,733	68,242

	2016		2015		Cumulative quarter ended 30 September	
	2016	2015	2016	2015	2016	2015
		Restated		Restated		Restated
<i>In RM Mil</i>	Third Parties		Inter-segment		Gross Total	
Upstream	69,832	91,606	16,617	18,668	86,449	110,274
Downstream	65,092	84,609	3,302	2,727	68,394	87,336
Corporate and Others	11,383	11,344	3,131	4,625	14,514	15,969
Total	146,307	187,559	23,050	26,020	169,357	213,579

9.2 Segment PAT

	Individual quarter ended 30 September		Cumulative quarter ended 30 September	
	2016	2015	2016	2015
		Restated		Restated
<i>In RM Mil</i>				
Upstream	2,426	117	1,016	14,255
Downstream	1,885	1,776	5,427	6,930
Corporate and Others	322	(1,777)	1,710	431
Total PAT for reportable segments	4,633	116	8,153	21,616
Elimination of inter-segment transactions	1,437	1,235	4,100	2,202
Consolidated PAT	6,070	1,351	12,253	23,818

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PART B – OTHER EXPLANATORY NOTES

10. REVIEW OF GROUP PERFORMANCE

Cumulative quarter ended			Individual quarter ended		
30.9.2015	30.9.2016	In RM Mil	30.9.2016	30.6.2016	30.9.2015
187,559	146,307	Revenue	48,741	48,440	60,064
23,818	12,253	Profit for the period	6,070	1,616	1,351
56,278	48,505	EBITDA ²	15,151	17,749	14,548
<i>In RM Mil</i>				As at	As at
Total assets			581,300	591,907	
Shareholders' equity			361,669	374,876	
Gearing ratio ³			17.6%	16.0%	
ROACE ⁴			2.3%	5.1%	

Third quarter PETRONAS Group recorded revenue of RM48.7 billion, a decrease of 19% compared to RM60.1 billion for the same period in 2015. However, profit for the quarter increased to RM6.1 billion from RM1.4 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 petroleum products and crude oil and condensate sales volume.

The Group recorded a higher profit of RM6.1 billion, an increase of more than 100% as compared to the profit of the same quarter last year of RM1.4 billion. This was primarily due to lower product and production costs, impact of favourable foreign exchange rate and lower net impairment on assets and well costs partially offset by lower average realised prices recorded across all products. EBITDA for the quarter was RM15.2 billion, an increase of 4% as compared to the same period in 2015.

Cumulative quarter PETRONAS Group recorded a 22% reduction in revenue for the period ended 30 September 2016 at RM146.3 billion compared to RM187.6 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 petroleum products, crude oil and condensate and processed gas sales volume. This decrease was partially offset by the effect of favourable US Dollar exchange rate movement against Ringgit.

The Group generated profit of RM12.3 billion, a decrease of 49% as compared to the profit of the same period last year of RM23.8 billion. This was primarily due to lower revenue recorded for the period as a result of lower prices and higher net impairment on assets and well costs partially offset by lower product and production costs and impact of favourable foreign exchange rate. EBITDA for the period was RM48.5 billion, a decrease of 14% as compared to the same period in 2015.

Total assets decreased to RM581.3 billion as at 30 September 2016 as compared to RM591.9 billion as at 31 December 2015 primarily due to impact of lower cash balances. Shareholder's equity of RM361.7 billion as at 30 September 2016 decreased by RM13.2 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 17.6% as at 30 September 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 2.3% as at 30 September 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.

² 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.

³ Gearing ratio is calculated as adjusted total debt (total debt including provision for decommissioning of assets) divided by total equity and adjusted total debt.

⁴ 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.

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PART B – OTHER EXPLANATORY NOTES (continued)

11. REVIEW OF PERFORMANCE – UPSTREAM

Cumulative quarter ended		<i>Financial Indicators</i>	30.9.2016	Individual quarter ended	
30.9.2015	30.9.2016			30.6.2016	30.9.2015
Restated		<i>In RM Mil</i>			Restated
		Revenue			
91,606	69,832	Third party	23,421	21,939	28,645
18,668	16,617	Inter-segment	5,680	6,139	5,887
110,274	86,449		29,101	28,078	34,532
14,255	1,016	PAT/(LAT) ⁵	2,426	(3,709)	117
Cumulative quarter ended		<i>Operational Indicators</i>	30.9.2016	Individual quarter ended	
30.9.2015	30.9.2016			30.6.2016	30.9.2015
		Production ⁶ ('000 boe ⁷ per day)			
938	937	Crude oil and condensate	874	927	893
1,340	1,399	Natural gas	1,353	1,402	1,289
2,278	2,336		2,227	2,329	2,182
		Oil and gas entitlement ⁸ ('000 boe per day)			
637	681	Crude oil and condensate	648	674	614
972	1,074	Natural gas	1,154	974	878
1,609	1,755		1,802	1,648	1,492
		Malaysia average sales gas volume (mmscfd) ⁹	2,734	2,822	2,764
2,781	2,759	LNG sales volume (million tonnes)	7.12	7.02	7.17
22.13	21.49				

Third quarter Revenue for the quarter ended 30 September 2016 was RM29.1 billion compared to RM34.5 billion in the corresponding quarter last year. The lower revenue was mainly contributed by lower realised prices of all products, partially offset by higher entitlement volume in the current quarter. Profit after tax for the quarter of RM2.4 billion was higher compared to RM0.1 billion recorded in the corresponding quarter last year, mainly due to lower net impairment on assets.

Total production volume for the quarter was 2,227 thousand boe per day compared to 2,182 thousand boe per day in the corresponding quarter last year mainly due to resumption of operations of the Sabah Sarawak Gas Pipeline, higher facilities uptime in Malaysia and Canada, and higher production from Indonesia and Australia, partially offset by natural decline rate.

Total LNG sales volume for the quarter was slightly lower as compared to the corresponding quarter in 2015 mainly due to lower trading volume, partially offset by volumes from Gladstone LNG ("GLNG").

Malaysia average sales gas volume was lower by 30 mmscfd compared to the corresponding quarter last year mainly due to lower demand.

⁵ LAT: Loss After Tax

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 THIRD QUARTER 2016



PART B – OTHER EXPLANATORY NOTES (continued)

11. REVIEW OF PERFORMANCE – UPSTREAM (continued)

Cumulative quarter Revenue for the cumulative quarter ended 30 September 2016 was RM86.4 billion compared to RM110.3 billion in the corresponding period last year. The lower revenue reflects the decrease in realised prices of all products despite higher entitlement volume in the current period. Profit after tax of RM1.0 billion for the period was lower compared to RM14.3 billion recorded in 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 September 2016 was 2,336 thousand boe per day compared to 2,278 thousand boe per day in the corresponding period last year mainly due to resumption of operations of the Sabah Sarawak Gas Pipeline, higher facilities uptime in Malaysia and Canada, and higher production from Indonesia and Australia, 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 lower trading volume, partially offset by new volumes from GLNG.

Malaysia average sales gas volume was lower by 22 mmscfd or 0.8% compared to the corresponding period last year mainly due to lower demand.

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PART B – OTHER EXPLANATORY NOTES (continued)

12. REVIEW OF PERFORMANCE – DOWNSTREAM

Cumulative quarter ended		<i>Financial Indicators</i>	30.9.2016	Individual quarter ended	
30.9.2015	30.9.2016			30.6.2016	30.9.2015
Restated		<i>In RM Mil</i>			Restated
		Revenue			
84,609	65,092	Third party	21,860	22,701	27,784
2,727	3,302	Inter-segment	1,197	1,050	843
87,336	68,394		23,057	23,751	28,627
6,930	5,427	PAT	1,885	2,258	1,776
Cumulative quarter ended		<i>Operational Indicators</i>	30.9.2016	Individual quarter ended	
30.9.2015	30.9.2016			30.6.2016	30.9.2015
		Petroleum products sales volume (in million barrels)	65.7	68.6	70.9
214.3	203.3	Crude oil sales volume (in million barrels)	43.0	47.8	48.2
161.6	146.1	Petrochemicals sales volume (in million metric tonnes)	2.0	1.8	1.6
4.8	5.5				

Third quarter Revenue for the quarter was RM23.1 billion, a decrease of RM5.6 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. Volumes of crude and petroleum products sold were also lower.

Petroleum products sales volume was 65.7 million barrels, lower than the corresponding quarter last year by 5.2 million barrels due to lower marketing and trading volume for the quarter.

Crude oil sales volume was 43.0 million barrels, lower than the corresponding quarter last year by 5.2 million barrels due to lower trading volumes for the quarter, partially offset by higher marketing volume.

Petrochemical products sales volume was higher by 0.4 million metric tonnes compared to the corresponding quarter last year due to better plant operating performance leading to higher production.

Downstream PAT was RM1.9 billion, higher than the corresponding quarter last year by RM0.1 billion mainly due to higher international refining margins and better marketing margins.

Cumulative quarter Revenue for the period was RM68.4 billion, RM18.9 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 203.3 million barrels, lower than the corresponding period last year by 11.0 million barrels due to overall reduction in marketing and trading activities.

Crude oil sales volume was 146.1 million barrels, lower than the corresponding period last year by 15.5 million barrels due to lower trading activities, partially offset by more marketing activities.

Petrochemical products sales volume was higher by 0.7 million metric tonnes compared to the corresponding period last year due to improved plant performance leading to higher production.

Downstream cumulative PAT was RM5.4 billion, RM1.5 billion lower than the corresponding period last year mainly due to lower domestic refining and marketing margins coupled with lower petrochemical product spreads.

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PART B – OTHER EXPLANATORY NOTES (continued)

13. REVIEW OF PERFORMANCE – CORPORATE AND OTHERS

Cumulative quarter ended		<i>Financial Indicators</i>	30.9.2016	Individual quarter ended	
30.9.2015	30.9.2016			30.6.2016	30.9.2015
Restated		<i>In RM Mil</i>			Restated
		Revenue			
11,344	11,383	Third party	3,460	3,800	3,635
4,625	3,131	Inter-segment	1,115	868	1,448
<u>15,969</u>	<u>14,514</u>		<u>4,575</u>	<u>4,668</u>	<u>5,083</u>
431	1,710	PAT/(LAT)	322	1,025	(1,777)

Third quarter Revenue for the quarter was RM4.6 billion, lower by RM0.5 billion as compared to the corresponding quarter last year mainly due to lower inter-segment income from shipping business. PAT stood at RM0.3 billion, higher by RM2.1 billion mainly due to lower net foreign exchange loss in the current quarter.

Cumulative quarter Revenue for the period was RM14.5 billion, lower by RM1.5 billion as compared to the same period last year mainly due to lower fund investment income. PAT increased by RM1.3 billion to RM1.7 billion as compared to RM0.4 billion last year due to lower net foreign exchange loss as compared to the same period in 2015.

14. COMPARISON WITH PRECEDING QUARTER'S RESULT

<i>In RM Mil</i>	Individual quarter ended	
	30.9.2016	30.6.2016
Revenue	48,741	48,440
Profit for the period	6,070	1,616
EBITDA	15,151	17,749

PETRONAS Group's revenue of RM48.7 billion for the quarter was higher by RM0.3 billion or 1% as compared to the preceding quarter. The increase was primarily due to the impact of higher average realised prices for most products and favourable US Dollar exchange rate movement against Ringgit partially offset by lower sales volume for major products.

Profit for the period increased by RM4.5 billion as compared to the preceding quarter primarily due to lower net impairment on assets and wells. EBITDA for the quarter was RM15.2 billion, a decrease by 15% as compared to the preceding quarter.

15. CURRENT FINANCIAL YEAR PROSPECTS

Current oil price environment continues to pose significant challenges to the industry and the outlook remains uncertain. Whilst performance in 2016 is affected, PETRONAS has been responsive with strong operational efficiency and financial discipline.

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PART B – OTHER EXPLANATORY NOTES (continued)

16. TAXATION

<i>In RM Mil</i>	Individual quarter ended 30 September		Cumulative quarter ended 30 September	
	2016	2015	2016	2015
Current tax expenses				
Malaysia	2,339	2,685	7,274	11,677
Overseas	154	280	517	758
Deferred tax expenses				
Origination and reversal of temporary differences	(554)	(421)	(1,989)	(794)
	<u>1,939</u>	<u>2,544</u>	<u>5,802</u>	<u>11,641</u>
Effective tax rate	24.2%	65.3%	32.1%	32.8%

The Group's effective tax rate for the current quarter and period-to-date of 24.2% and 32.1% respectively were lower than the corresponding quarter last year and period-to-date, mainly due to lower non-deductible expenses and higher non-assessable income respectively.

17. CASH, FUND AND OTHER INVESTMENTS

<i>In %</i>	As at 30.9.2016	As at 31.12.2015
By Currency		
RM	54.9	60.9
USD	40.1	35.1
Others	5.0	4.0
	<u>100.0</u>	<u>100.0</u>
By Maturity¹⁰		
< 1 year	99.0	97.5
1 to 5 years	0.4	1.7
5 to 10 years	0.6	0.8
	<u>100.0</u>	<u>100.0</u>
By Type		
Money market	94.9	94.4
Corporate bonds	1.2	2.9
Equities	3.9	2.7
	<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.

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PART B – OTHER EXPLANATORY NOTES (continued)

18. BORROWINGS

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

<i>In RM Mil</i>	<u>As at 30.9.2016</u>	<u>As at 31.12.2015</u>
Non-Current		
Secured		
Term loans	2,565	2,134
Islamic financing facilities	720	935
Total non-current secured borrowings	<u>3,285</u>	<u>3,069</u>
Unsecured		
Term loans	6,750	6,558
Notes and Bonds	33,977	35,167
Islamic financing facilities	9,580	9,145
Total non-current unsecured borrowings	<u>50,307</u>	<u>50,870</u>
Total non-current borrowings	<u>53,592</u>	<u>53,939</u>
Current		
Secured		
Term loans	324	203
Islamic financing facilities	267	611
Total current secured borrowings	<u>591</u>	<u>814</u>
Unsecured		
Term loans	5,284	1,142
Islamic financing facilities	400	257
Revolving credits	2,754	1,602
Bank overdrafts	143	148
Total current unsecured borrowings	<u>8,581</u>	<u>3,149</u>
Total current borrowings	<u>9,172</u>	<u>3,963</u>
Total borrowings	<u>62,764</u>	<u>57,902</u>

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PART B – OTHER EXPLANATORY NOTES (continued)

18. BORROWINGS (continued)

<i>In RM Mil</i>	As at		As at	
	30.9.2016	%	31.12.2015	%
By Currency				
USD	52,410	83.5	47,263	81.6
RM	6,475	10.3	6,404	11.1
EUR	2,256	3.6	2,068	3.6
GBP	1,195	1.9	1,587	2.7
Others	428	0.7	580	1.0
	62,764	100.0	57,902	100.0
By Repayment Schedule				
< 1 year	9,172	14.6	3,963	6.8
1 to 5 years	28,509	45.4	27,616	47.7
5 to 10 years	16,888	27.0	17,841	30.9
> 10 years	8,195	13.0	8,482	14.6
	62,764	100.0	57,902	100.0

19. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

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FOR THIRD QUARTER 2016



PART B – OTHER EXPLANATORY NOTES (continued)

21. PROFIT FOR THE PERIOD

<i>In RM Mil</i>	Individual quarter ended 30 September		Cumulative quarter ended 30 September	
	2016	2015	2016	2015
Included in profit for the period are the following charges:				
Depreciation and amortisation	6,240	5,975	18,319	16,807
Loss on disposal of:				
- property, plant and equipment	18	-	-	-
- other investments	4	-	-	-
- intangible assets	-	-	457	-
- a subsidiary	-	-	417	-
Net impairment losses on:				
- receivables	-	-	-	244
- intangible assets	-	197	2,654	197
- property, plant and equipment	638	4,859	8,975	5,474
- investments in an associate	14	570	-	570
Net impairment/write-off on well costs	2,073	485	5,507	908
Net loss on derivatives	-	634	-	926
Net loss on foreign exchange	277	3,828	-	5,045
and credits:				
Dividend income	124	125	161	149
Gain on disposal of:				
- property, plant and equipment	-	6	2	44
- other investments	-	-	2	13
- an associate and a joint venture	15	-	15	-
- a subsidiary	2	-	34	-
- intangible assets	24	-	-	-
Interest income	1,080	1,257	3,440	4,003
Net gain on derivatives	13	-	111	-
Net gain on foreign exchange	-	-	527	-
Net write back of impairment losses on:				
- investments in an associate	-	-	419	-
- intangible assets	12	-	-	-
- receivables	257	1	71	-
- other investments	-	-	10	-

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PART B – OTHER EXPLANATORY NOTES (continued)

22. DIVIDENDS

As disclosed in Note 6.

23. EXCHANGE RATES

US dollar/RM	Individual quarter ended			Cumulative quarter ended		
	30.9.2016	30.6.2016	30.9.2015	30.9.2016	30.9.2015	31.12.2015
Average rate	4.0510	4.0089	4.0532	4.0875	3.7757	3.9032
Closing rate	4.1465	4.0180	4.4475	4.1465	4.4475	4.2940

By order of the Board

Ahmad Redza Abdul Wahab (MACS01577)
 Company Secretary
 Kuala Lumpur
 16 November 2016