



PETRONAS

PETRONAS Group Interim Financial Report

For Second Quarter 2018

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INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



| Cumulative quarter ended | | Key Financial and Operational Highlights | 30.6.2018 | Individual quarter ended | |
|--------------------------|----------------|---|---------------|--------------------------|-----------|
| 30.6.2017 | 30.6.2018 | | | 31.3.2018 | 30.6.2017 |
| 108,151 | 117,159 | Revenue (RM mil) | 59,237 | 57,922 | 51,632 |
| 26,062 | 37,433 | Profit Before Taxation (RM mil) | 19,177 | 18,256 | 10,580 |
| 17,351 | 26,648 | Profit After Tax (RM mil) | 13,625 | 13,023 | 7,055 |
| (1,346) | 1,259 | Net impairment (losses)/write-back, net of tax (RM mil) ¹ | 182 | 1,077 | (1,133) |
| 18,697 | 25,389 | Profit After Tax excluding net impairment (RM mil) | 13,443 | 11,946 | 8,188 |
| 45,220 | 52,230 | EBITDA (RM mil) | 27,193 | 25,037 | 20,604 |
| 39,851 | 41,679 | Cash flows from operating activities (RM mil) | 19,737 | 21,942 | 21,811 |
| 21,347 | 19,824 | Capital investments (RM mil) | 7,861 | 11,963 | 9,419 |
| 1,778 | 1,681 | Crude oil, condensate and natural gas entitlement volume ('000 boe per day) | 1,634 | 1,728 | 1,706 |

Second quarter

- **PETRONAS Group's revenue for the second quarter of 2018 increased by 15%** as compared to the second quarter of 2017 mainly due to the impact of higher average realised prices recorded for petroleum products and crude oil & condensate largely offset by the unfavourable effect of strengthening of Ringgit against US Dollar exchange rate.
- **The Group recorded Profit Before Taxation ("PBT") of RM19.2 billion and Profit After Tax ("PAT") of RM13.6 billion for the second quarter of 2018, increased by 81% and 94% respectively**, as compared to the second quarter of 2017, primarily due to higher revenue and non-Final Investment Decision ("FID") costs for Pacific NorthWest LNG project in Canada which was recognised in the second quarter of 2017 as well as lower net impairment on assets. These were partially offset by higher tax expenses coupled with higher net product and production costs recorded for the quarter. **Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") increased by 32%** as compared to the second quarter of 2017 in line with higher PBT.
- **Cash flows from operating activities decreased by 10%** as compared to the second quarter of 2017 mainly due to higher working capital and taxes paid partially offset by higher average realised prices.
- **Capital investments** for the second quarter of 2018 amounted to **RM7.9 billion**, mainly attributed to Upstream projects.
- **Crude oil, condensate and natural gas entitlement volume for the second quarter of 2018 was 1,634 thousand barrels of oil equivalent ("boe") per day** as compared to 1,706 thousand boe per day in the second quarter of 2017. The decrease was in line with lower gas production. Total production volume was 2,305 thousand boe per day as compared to 2,297 thousand boe per day in the second quarter of 2017 mainly due to higher liquid production from Iraq and Turkmenistan.

Cumulative quarter

- **PETRONAS Group's revenue for the first half of 2018 increased by 8%** as compared to the first half of 2017 mainly due to the impact of higher average realised prices recorded for all products largely offset by the unfavourable effect of strengthening of Ringgit against US Dollar exchange rate.
- **The Group recorded PBT of RM37.4 billion and PAT of RM26.6 billion for the first half of 2018, increased by 43% and 54% respectively**, as compared to the first half of 2017, primarily due to higher revenue, lower net impairment on assets and well costs as well as non-FID costs for Pacific NorthWest LNG project in Canada which was recognised in the first half of 2017. These were partially offset by higher net product and production costs coupled with higher tax expenses. **EBITDA for the first half of 2018 was RM52.2 billion, increased by 15%** as compared to the first half of 2017 in line with higher PBT.
- **Cash flows from operating activities increased by 5%** as compared to the first half of 2017 due to higher average realised prices partially offset by higher taxes paid.
- **Capital investments** for the first half of 2018 amounted to **RM19.8 billion**, mainly attributed to Refinery and Petrochemical Integrated Development project in Johor.
- **Crude oil, condensate and natural gas entitlement volume for the first half of 2018 was 1,681 thousand boe per day** as compared to 1,778 thousand boe per day in the first half of 2017. The decrease was in line with lower gas production. Total production volume was 2,383 thousand boe per day as compared to 2,342 thousand boe per day in the first half of 2017 mainly due to higher liquid production from Iraq and Turkmenistan.

¹ Comprises net impairment (losses)/write-back on property, plant and equipment, receivables and other investments (Note 22).

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



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 2018 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

| In RM Mil | Individual quarter ended | | Cumulative quarter ended | |
|--|--------------------------|--------------|--------------------------|--------------|
| | 2018 | 30 June 2017 | 2018 | 30 June 2017 |
| Revenue | 59,237 | 51,632 | 117,159 | 108,151 |
| Cost of revenue | (36,023) | (33,336) | (71,444) | (68,280) |
| Gross profit | 23,214 | 18,296 | 45,715 | 39,871 |
| Selling and distribution expenses | (1,678) | (1,433) | (3,219) | (2,967) |
| Administration expenses | (2,828) | (2,593) | (5,855) | (5,540) |
| Net impairment write-back/(losses) | 182 | (1,133) | 1,259 | (1,346) |
| Other expenses | (122) | (1,978) | (1,933) | (3,511) |
| Other income | 1,088 | 810 | 2,874 | 1,600 |
| Operating profit | 19,856 | 11,969 | 38,841 | 28,107 |
| Financing costs | (842) | (903) | (1,681) | (1,760) |
| Share of profit/(loss) after tax and non-controlling interests of equity accounted associates and joint ventures | 163 | (486) | 273 | (285) |
| Profit before taxation | 19,177 | 10,580 | 37,433 | 26,062 |
| Tax expense | (5,552) | (3,525) | (10,785) | (8,711) |
| PROFIT FOR THE PERIOD | 13,625 | 7,055 | 26,648 | 17,351 |
| Other comprehensive income/(expenses) | | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | | |
| Fair value through other comprehensive income ("OCI") | | | | |
| - Changes in fair value | (2) | - | (8) | - |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | | |
| Net movements from exchange differences | 5,749 | (4,140) | (1,925) | (5,592) |
| Available-for-sale financial assets | | | | |
| - Changes in fair value | - | (294) | - | (818) |
| - Transfer to profit or loss | - | 4 | - | (39) |
| Others | 8 | 388 | 102 | 510 |
| Total other comprehensive income/(expenses) for the period | 5,755 | (4,042) | (1,831) | (5,939) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 19,380 | 3,013 | 24,817 | 11,412 |
| Profit attributable to: | | | | |
| Shareholders of the Company | 11,562 | 5,183 | 22,964 | 13,388 |
| Non-controlling interests | 2,063 | 1,872 | 3,684 | 3,963 |
| PROFIT FOR THE PERIOD | 13,625 | 7,055 | 26,648 | 17,351 |
| Total comprehensive income attributable to: | | | | |
| Shareholders of the Company | 16,666 | 1,794 | 21,263 | 8,416 |
| Non-controlling interests | 2,714 | 1,219 | 3,554 | 2,996 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 19,380 | 3,013 | 24,817 | 11,412 |

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| <i>In RM Mil</i> | As at 30.6.2018 | As at 31.12.2017 |
|--|--------------------|---------------------|
| ASSETS | | |
| Property, plant and equipment | 291,498 | 327,458 |
| Investment properties, land held for development and prepaid lease payments | 14,164 | 14,458 |
| Investments in associates and joint ventures | 16,173 | 13,092 |
| Intangible assets | 21,298 | 22,079 |
| Fund and other investments | 1,085 | 544 |
| Other non-current assets | 23,295 | 23,703 |
| TOTAL NON-CURRENT ASSETS | 367,513 | 401,334 |
| Trade and other inventories | 14,303 | 15,379 |
| Trade and other receivables | 46,718 | 44,035 |
| Fund and other investments | 5,968 | 7,754 |
| Cash and cash equivalents | 173,957 | 128,209 |
| Other current assets | 2,263 | 3,139 |
| TOTAL CURRENT ASSETS | 243,209 | 198,516 |
| TOTAL ASSETS | 610,722 | 599,850 |
| EQUITY | | |
| Share capital | 100 | 100 |
| Reserves | 389,141 | 389,694 |
| Total equity attributable to shareholders of the Company | 389,241 | 389,794 |
| Non-controlling interests | 43,103 | 43,041 |
| TOTAL EQUITY | 432,344 | 432,835 |
| LIABILITIES | | |
| Borrowings | 54,886 | 53,751 |
| Deferred tax liabilities | 8,563 | 8,177 |
| Other long term liabilities and provisions | 36,961 | 37,385 |
| TOTAL NON-CURRENT LIABILITIES | 100,410 | 99,313 |
| Trade and other payables | 48,145 | 53,291 |
| Borrowings | 11,463 | 10,398 |
| Taxation | 5,360 | 4,013 |
| Dividend payable | 13,000 | - |
| TOTAL CURRENT LIABILITIES | 77,968 | 67,702 |
| TOTAL LIABILITIES | 178,378 | 167,015 |
| TOTAL EQUITY AND LIABILITIES | 610,722 | 599,850 |

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



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 | Fair Value through OCI Reserve | Available-for-sale Reserve |
| Cumulative quarter ended 30 June 2017 | | | | | |
| Balance at 1 January 2017 | 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 |
| Cumulative quarter ended 30 June 2018 | | | | | |
| Balance at 1 January 2018 | | | | | |
| - As previously reported | 100 | 14,425 | 31,267 | - | 1,275 |
| - Adjustments on initial application of MFRS 9 | - | - | - | 75 | (1,275) |
| At 1 January 2018, restated | 100 | 14,425 | 31,267 | 75 | - |
| Fair value through other comprehensive income: | | | | | |
| - Changes in fair value | - | - | - | (8) | - |
| Net movements from exchange differences | - | - | (1,780) | - | - |
| Other comprehensive income | - | 87 | - | - | - |
| Total other comprehensive income/(expenses) for the period | - | 87 | (1,780) | (8) | - |
| Profit for the period | - | - | - | - | - |
| Total comprehensive income/(expenses) for the period | - | 87 | (1,780) | (8) | - |
| Additional issuance of shares to non-controlling interests | - | - | - | - | - |
| Changes in ownership interest in subsidiaries | - | - | - | - | - |
| Disposal of subsidiaries | - | - | (162) | - | - |
| Redemption of redeemable preference shares in subsidiaries | - | 116 | - | - | - |
| Dividends | - | - | - | - | - |
| Total transactions with shareholders | - | 116 | (162) | - | - |
| Balance at 30 June 2018 | 100 | 14,628 | 29,325 | 67 | - |

continue to next page

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

| In RM Mil | Attributable to shareholders of the Company | | | Non-controlling Interests | Total Equity |
|---|---|------------------|----------|---------------------------|--------------|
| | Distributable | | Total | | |
| | General Reserve | Retained Profits | Total | | |
| Cumulative quarter ended 30 June 2017 | | | | | |
| Balance at 1 January 2017 | 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 |
| Cumulative quarter ended 30 June 2018 | | | | | |
| Balance at 1 January 2018 | | | | | |
| - As previously reported | 12,000 | 330,727 | 389,794 | 43,041 | 432,835 |
| - Adjustments on initial application of MFRS 9 | - | 791 | (409) | (49) | (458) |
| At 1 January 2018, restated | 12,000 | 331,518 | 389,385 | 42,992 | 432,377 |
| Fair value through other comprehensive income: | | | | | |
| - Changes in fair value | - | - | (8) | - | (8) |
| Net movements from exchange differences | - | - | (1,780) | (145) | (1,925) |
| Other comprehensive income | - | - | 87 | 15 | 102 |
| Total other comprehensive income/(expenses) for the period | - | - | (1,701) | (130) | (1,831) |
| Profit for the period | - | 22,964 | 22,964 | 3,684 | 26,648 |
| Total comprehensive income/(expenses) for the period | - | 22,964 | 21,263 | 3,554 | 24,817 |
| Additional issuance of shares to non-controlling interests | - | - | - | 11 | 11 |
| Changes in ownership interest in subsidiaries | - | (245) | (245) | (380) | (625) |
| Disposal of subsidiaries | - | - | (162) | - | (162) |
| Redemption of redeemable preference shares in subsidiaries | - | (116) | - | - | - |
| Dividends | - | (21,000) | (21,000) | (3,074) | (24,074) |
| Total transactions with shareholders | - | (21,361) | (21,407) | (3,443) | (24,850) |
| Balance at 30 June 2018 | 12,000 | 333,121 | 389,241 | 43,103 | 432,344 |

continued from previous page

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| <i>In RM Mil</i> | Cumulative quarter ended | |
|--|--------------------------|---------------|
| | 2018 | 30 June 2017 |
| Cash flows from operating activities | | |
| Profit before taxation | 37,433 | 26,062 |
| Adjustments for: | | |
| Depreciation and amortisation | 17,533 | 17,418 |
| Net impairment (write-back)/loss on property, plant and equipment | (747) | 1,887 |
| Net impairment/write-off on well costs | 211 | 573 |
| Net impairment write-back on receivables | (516) | (541) |
| Net impairment loss on other investments | 4 | - |
| Net inventories written down to net realisable value | 25 | - |
| Share of (profit)/loss after tax and non-controlling interests of equity accounted associates and joint ventures | (273) | 285 |
| Property, plant and equipment written off | 11 | 263 |
| Gain on disposal of subsidiaries, an associate, other investments and property, plant and equipment | (926) | (126) |
| Loss on disposal of other investments and property, plant and equipment | 84 | 23 |
| Net (gain)/loss on derivatives | (15) | 8 |
| Unrealised (gain)/loss on foreign exchange | (351) | 1,438 |
| Interest income | (2,755) | (2,060) |
| Interest expenses | 1,681 | 1,760 |
| Operating profit before changes in working capital | 51,399 | 46,990 |
| Net change in working capital | (1,094) | (2,131) |
| Cash generated from operations | 50,305 | 44,859 |
| Interest income from fund and other investments | 1,761 | 1,327 |
| Interest expenses paid | (1,333) | (1,418) |
| Taxation paid | (9,054) | (4,917) |
| Net cash generated from operating activities | 41,679 | 39,851 |

continue to next page

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

| <i>In RM Mil</i> | Cumulative quarter ended | |
|---|--------------------------|-----------------|
| | 2018 | 30 June 2017 |
| Cash flows from investing activities | | |
| Investment in associates and joint ventures | (82) | (297) |
| Investment in securities and other investments | (919) | (824) |
| Proceeds from disposal of: | | |
| - investment in subsidiaries, net of cash disposed | 3,012 | - |
| - investment in an associate | - | 36 |
| - property, plant and equipment, prepaid lease payments, investment properties, intangible assets, land held for development and assets classified as held for sale | 544 | 215 |
| - securities and other investments | 2,854 | 1,625 |
| 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 | (19,824) | (21,347) |
| Dividends received | 537 | 388 |
| Others | 155 | - |
| Net cash used in investing activities | (13,723) | (20,192) |
| Cash flows from financing activities | | |
| Repayment of borrowings | (3,648) | (2,619) |
| Drawdown of borrowings | 33,290 | 2,922 |
| Dividends paid | (8,000) | (6,500) |
| Dividends paid to non-controlling interests | (3,073) | (3,331) |
| Proceeds from shares issued to non-controlling interests | 11 | 16 |
| Proceeds from partial disposal of equity interest to non-controlling interests | - | 82 |
| Net cash generated from/(used in) financing activities | 18,580 | (9,430) |
| Net increase in cash and cash equivalents | 46,536 | 10,229 |
| Increase in deposits restricted | (7) | (70) |
| Net foreign exchange differences | (807) | (2,148) |
| Cash and cash equivalents at beginning of the period | 127,563 | 120,791 |
| Cash and cash equivalents at end of the period | 173,285 | 128,802 |
| Cash and cash equivalents | | |
| Cash and bank balances and deposits | 173,957 | 129,570 |
| Bank overdrafts | (41) | (146) |
| Less: Deposits restricted | (631) | (622) |
| | 173,285 | 128,802 |

continued from previous page

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



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 2017.

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 2017.

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 2018 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2017 except as disclosed below.

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

Effective for annual periods beginning on or after 1 January 2018

MFRS 9 *Financial Instruments (2014)*

MFRS 15 *Revenue from Contracts with Customers*

Amendments to MFRS 4 *Insurance Contracts: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*

Amendments to MFRS 15 *Revenue from Contracts with Customers: Clarifications to MFRS 15*

Amendments to MFRS 128 *Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)*

Amendments to MFRS 140 *Investment Property: Transfers of Investment Property*

IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The adoption of these pronouncements did not have a significant impact on the Group's reported income and net assets other than as set out below:

i. MFRS 9 *Financial Instruments (2014)*

MFRS 9 replaces the guidance in MFRS 139 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities and impairment of financial assets.

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The new standard contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"), and eliminates the existing MFRS 139 categories of held-to-maturity, loans and receivables and available-for-sale.

There was no significant impact on the accounting for long term receivables, fund and other investments that have been designated upon initial recognition at fair value through profit or loss, and trade and other receivables upon initial application of the new reclassification requirements. The effect of adopting MFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i. MFRS 9 *Financial Instruments (2014)* (continued)

At 31 December 2017, the Group had equity investments classified as available-for-sale with a fair value of RM3,241,000,000 that are held for long-term strategic purposes and investments in debt securities of RM2,863,000,000. Under MFRS 9, the Group has designated these investments as measured at FVTPL. Consequently, all fair value gains and losses will be reported in profit or loss, and no impairment losses will be recognised in profit or loss.

MFRS 9 replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss (“ECL”) model. Under MFRS 9, loss allowances will be measured on either 12-month ECLs or lifetime ECLs.

As allowed by the transitional provision of MFRS 9, the Group elected not to restate the comparatives. Adjustments arising from the initial application of the new impairment model has been recognised in the opening balance of the retained earnings and the carrying amount of the financial assets as at 1 January 2018 as disclosed below:

Impact of adoption of MFRS 9 to opening balance at 1 January 2018

In RM Mil

| | |
|---|-------|
| Decrease in equity | 458 |
| Decrease in long term receivables | (65) |
| Decrease in trade and other receivables | (419) |
| Increase in fund and other investments | 26 |

ii. MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111 *Construction Contracts*, MFRS 118 *Revenue*, IC Interpretation 13 *Customer Loyalty Programmes*, IC Interpretation 15 *Agreements for Construction of Real Estate*, IC Interpretation 18 *Transfers of Assets from Customers* and IC Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

The initial application of MFRS 15 did not have a significant impact on the Group’s financial statements.

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 2017.

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.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



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

6. DIVIDENDS

During the financial period:

- i. the Company paid an interim dividend of RM30,000 per ordinary share amounting to RM3 billion declared in January 2018 in respect of financial year ending 31 December 2018. The dividend was paid in instalments between January and March 2018.
- ii. the Company paid a second interim dividend of RM20,000 per ordinary share for financial year ending 31 December 2018 amounting to RM2 billion which was declared in April 2018 and paid in May 2018.
- iii. the Company paid a dividend of RM3 billion, being partial payments 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 end 31 December 2017.

The remaining amount of the final dividend amounting to RM13 billion will be paid in instalments between July and November 2018.

- iv. the Board had during its meeting held in July 2018, declared a special dividend of RM30,000 per ordinary share amounting to RM3 billion in respect of the financial year ending 31 December 2018 which will be payable in instalments between July and October 2018. The financial statements for the current quarter do not reflect this special dividend and will be accounted for in equity as an appropriation of retained profits in the quarter ending 30 September 2018.

7. SIGNIFICANT AND SUBSEQUENT EVENTS

Divestment of 50% of equity interests to Aramco Overseas Holdings Coöperatief U.A. ("AOHC")

PETRONAS, via its subsidiaries, PETRONAS Refinery & Petrochemical Corporation Sdn. Bhd. ("PRPC") and PETRONAS Chemicals Group Berhad ("PCG") signed a Share Purchase Agreement with Saudi Arabian Oil Company ("Saudi Aramco") on 28 February 2017, allowing Saudi Aramco's equity participation in PETRONAS' Refinery & Petrochemical Integrated Development ("RAPID") project in the southern Malaysian state of Johor.

On 28th March 2018, the Group completed the divestments of its 50% equity interests in Pengerang Refining Company Sdn. Bhd. (formerly known as ("fka") PRPC Refinery & Cracker Sdn. Bhd. ("PRPC RC")), a wholly-owned subsidiary of PRPC and Pengerang Petrochemical Company Sdn. Bhd. (fka PRPC Polymers Sdn. Bhd. ("PRPC Polymers")), a wholly-owned subsidiary of PCG respectively to Aramco Overseas Holdings Coöperatief U.A. ("AOHC"), a wholly-owned subsidiary of Saudi Aramco. Pursuant to this, PRPC RC and PRPC Polymers ceased to be subsidiaries of the Group and have been accounted for as a joint venture and a joint operation respectively, in accordance with MFRS 11 *Joint Arrangements*. The net profit contributed by these subsidiaries from 1 January 2018 to the date of divestment is not material in relation to the consolidated net profit of the Group for the period.

Divestment of 100% of equity interest to Khazanah Nasional Berhad

On 22nd March 2018, PETRONAS, via its wholly-owned subsidiary, PETRONAS Hartabina Sdn. Bhd. signed a Share Sale and Purchase Agreement for the sale of PETRONAS' 100% interest in Prince Court Medical Centre Sdn. Bhd. ("PCMC") to Khazanah Nasional Berhad ("Khazanah") (via its wholly-owned subsidiary, Pulau Memutik Ventures Sdn. Bhd.). The divestment was completed in early August 2018.

Acquisition of 25% equity in LNG Canada Project

On 24th April 2018, PETRONAS through its wholly-owned entity, North Montney LNG Limited Partnership ("NMLLP") has entered into a Purchase and Sales Agreement for an equity position in the LNG Canada project ("the Project") in Kitimat, British Columbia, Canada. The transaction completed on 17th July 2018 after receipt of international regulatory approvals and the completion of other associated agreements, PETRONAS (through NMLLP) owns 25% Participating Interest ("PI") of the Project, Shell Canada Energy (40% PI), PetroChina Canada Ltd. (15% PI), Diamond LNG Canada Ltd. (15% PI) and Kogas Canada LNG Ltd. (5% PI).

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



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

8. CHANGES IN COMPOSITION OF THE GROUP

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

9. FAIR VALUE INFORMATION

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

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

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

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

30 June 2018

In RM Mil

| | Level 1 | Level 2 | Total |
|------------------------------------|--------------|--------------|--------------|
| Financial assets | | | |
| Quoted shares | 1,941 | 17 | 1,958 |
| Quoted securities | 45 | 90 | 135 |
| Malaysian Government Securities | - | 42 | 42 |
| Corporate Private Debt Securities | - | 3,765 | 3,765 |
| Forward foreign exchange contracts | - | 70 | 70 |
| Forward gas contracts | 345 | - | 345 |
| Forward oil/gas price swaps | 190 | - | 190 |
| Interest rate swaps | - | 48 | 48 |
| | <u>2,521</u> | <u>4,032</u> | <u>6,553</u> |
| Financial liabilities | | | |
| Commodity swaps | (16) | (6) | (22) |
| Forward foreign exchange contracts | - | (50) | (50) |
| Forward gas contracts | (565) | - | (565) |
| Forward oil/gas price swaps | (131) | - | (131) |
| | <u>(712)</u> | <u>(56)</u> | <u>(768)</u> |

31 December 2017

In RM Mil

| | Level 1 | Level 2 | Total |
|------------------------------------|--------------|--------------|--------------|
| Financial assets | | | |
| Quoted shares | 3,754 | 41 | 3,795 |
| Quoted securities | 981 | 162 | 1,143 |
| Malaysian Government Securities | - | 42 | 42 |
| Corporate Private Debt Securities | - | 2,875 | 2,875 |
| Forward foreign exchange contracts | - | 219 | 219 |
| Forward gas contracts | 166 | - | 166 |
| Forward oil price contracts | 64 | - | 64 |
| Interest rate swaps | - | 30 | 30 |
| | <u>4,965</u> | <u>3,369</u> | <u>8,334</u> |
| Financial liabilities | | | |
| Commodity swaps | - | (51) | (51) |
| Forward foreign exchange contracts | - | (117) | (117) |
| Forward gas contracts | (221) | - | (221) |
| Forward oil/gas price swaps | (95) | - | (95) |
| | <u>(316)</u> | <u>(168)</u> | <u>(484)</u> |

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



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

10. OPERATING SEGMENTS

The Group has two reportable operating segments comprising Upstream and Downstream. Each reportable segment offers different products and services and are managed separately as described in the Group's audited consolidated financial statements for the year ended 31 December 2017. Effective first quarter of 2018, there has been a change in the way certain activities are managed. 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.

10.1 Revenue

| | 2018 | | 2017 | | Individual quarter ended 30 June | |
|----------------------|---------------|------------------|---------------|------------------|-------------------------------------|------------------|
| | 2018 | 2017 Restated | 2018 | 2017 Restated | 2018 | 2017 Restated |
| <i>In RM Mil</i> | Third Parties | | Inter-segment | | Gross Total | |
| Upstream | 25,315 | 24,303 | 12,028 | 8,148 | 37,343 | 32,451 |
| Downstream | 30,410 | 24,153 | 1,301 | 1,149 | 31,711 | 25,302 |
| Corporate and Others | 3,512 | 3,176 | 1,053 | 1,122 | 4,565 | 4,298 |
| Total | 59,237 | 51,632 | 14,382 | 10,419 | 73,619 | 62,051 |

| | 2018 | | 2017 | | Cumulative quarter ended 30 June | |
|----------------------|----------------|------------------|---------------|------------------|-------------------------------------|------------------|
| | 2018 | 2017 Restated | 2018 | 2017 Restated | 2018 | 2017 Restated |
| <i>In RM Mil</i> | Third Parties | | Inter-segment | | Gross Total | |
| Upstream | 53,477 | 49,664 | 21,091 | 17,398 | 74,568 | 67,062 |
| Downstream | 56,593 | 51,112 | 2,602 | 2,250 | 59,195 | 53,362 |
| Corporate and Others | 7,089 | 7,375 | 1,979 | 2,116 | 9,068 | 9,491 |
| Total | 117,159 | 108,151 | 25,672 | 21,764 | 142,831 | 129,915 |

10.2 Segment PAT

| | Individual quarter ended 30 June | | Cumulative quarter ended 30 June | |
|---|-------------------------------------|------------------|-------------------------------------|------------------|
| | 2018 | 2017 Restated | 2018 | 2017 Restated |
| <i>In RM Mil</i> | | | | |
| Upstream | 8,810 | 4,827 | 19,043 | 9,899 |
| Downstream | 3,190 | 2,216 | 5,155 | 5,051 |
| Corporate and Others | 1,335 | (973) | 1,364 | (167) |
| Total PAT for reportable segments | 13,335 | 6,070 | 25,562 | 14,783 |
| Elimination of inter-segment transactions | 290 | 985 | 1,086 | 2,568 |
| Consolidated PAT | 13,625 | 7,055 | 26,648 | 17,351 |

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



PART B – OTHER EXPLANATORY NOTES

11. REVIEW OF GROUP PERFORMANCE

| Cumulative quarter ended | | In RM Mil | Individual quarter ended | | |
|----------------------------|----------------|-----------------------|--------------------------|------------------|-------------------|
| 30.6.2017 | 30.6.2018 | | 30.6.2018 | 31.3.2018 | 30.6.2017 |
| 108,151 | 117,159 | Revenue | 59,237 | 57,922 | 51,632 |
| 17,351 | 26,648 | Profit for the period | 13,625 | 13,023 | 7,055 |
| 45,220 | 52,230 | EBITDA ² | 27,193 | 25,037 | 20,604 |
| <i>In RM Mil</i> | | | | As at | As at |
| | | | | 30.6.2018 | 31.12.2017 |
| Total assets | | | | 610,722 | 599,850 |
| Shareholders' equity | | | | 389,241 | 389,794 |
| Gearing ratio ³ | | | | 16.3% | 16.1% |
| ROACE ⁴ | | | | 11.8% | 9.8% |

Second quarter PETRONAS Group recorded revenue of RM59.2 billion for the second quarter of 2018, an increase of 15% as compared to RM51.6 billion in the second quarter of 2017. Similarly, profit for second quarter of 2018 increased to RM13.6 billion from RM7.0 billion recorded in the second quarter 2017.

The increase in revenue was mainly driven by the impact of higher average realised prices recorded for petroleum products and crude oil & condensate largely offset by the unfavourable effect of strengthening of Ringgit against US Dollar exchange rate.

The Group recorded a higher profit of RM13.6 billion, increased by 94% as compared to the second quarter of 2017 primarily due to higher revenue and non-FID costs for Pacific NorthWest LNG project in Canada which was recognised in the second quarter of 2017 as well as lower net impairment on assets. These were partially offset by higher tax expenses coupled with higher net product and production costs recorded for the quarter. EBITDA for the second quarter of 2018 was RM27.2 billion, an increase of 32% as compared to the second quarter 2017 in line with higher PBT.

Cumulative quarter PETRONAS Group recorded 8% increase in revenue for the first half of 2018 at RM117.2 billion as compared to the first half of 2017 of RM108.1 billion mainly due to the impact of higher average realised prices recorded for all products largely offset by the unfavourable effect of strengthening of Ringgit against US Dollar exchange rate.

The Group generated profit of RM26.6 billion, an increase of 54% as compared to the first half of 2017 of RM17.3 billion due to higher revenue, lower net impairment on assets and well costs mainly due to the impairment loss made on PETRONAS Australia Pty Ltd. which was recognised in the first half 2017 as a result of downward trending of LNG price. Furthermore, in the first half of 2017, there was non-FID costs for Pacific NorthWest LNG project in Canada. These were partially offset by higher net product and production costs coupled with higher tax expenses. EBITDA for the period was RM52.2 billion, an increase of 15% as compared to the first half of 2017 in line with higher PBT.

Total assets increased to RM610.7 billion as at 30 June 2018 as compared to RM599.8 billion as at 31 December 2017 primarily due to higher cash and fund investments. Shareholders' equity of RM389.2 billion as at 30 June 2018 decreased by RM0.6 billion as compared to 31 December 2017 mainly due to approved final dividend of RM16.0 billion in respect of the financial year ended 31 December 2017 and interim dividend of RM5.0 billion in respect of the financial year ending 31 December 2018 as well as the unfavourable effect of strengthening of Ringgit against US Dollar exchange rate. These were partially offset by profit generated during the period.

Gearing ratio increased marginally to 16.3% as at 30 June 2018 from 16.1% as at 31 December 2017 primarily contributed by additional drawdown made during the period. ROACE increased to 11.8% as at 30 June 2018 from 9.8% as at 31 December 2017 in line with higher profit recorded.

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 the exclusion of financing costs and 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 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 2018



PART B – OTHER EXPLANATORY NOTES (continued)

12. REVIEW OF PERFORMANCE – UPSTREAM

| Cumulative quarter ended | | <i>Financial Indicators</i> | 30.6.2018 | Individual quarter ended | |
|--------------------------|-----------|---|-----------|--------------------------|-----------|
| 30.6.2017 | 30.6.2018 | | | 31.3.2018 | 30.6.2017 |
| Restated | | <i>In RM Mil</i> | | Restated | |
| | | Revenue | | | |
| 49,664 | 53,477 | Third party | 25,315 | 28,162 | 24,303 |
| 17,398 | 21,091 | Inter-segment | 12,028 | 9,063 | 8,148 |
| 67,062 | 74,568 | | 37,343 | 37,225 | 32,451 |
| 9,899 | 19,043 | PAT | 8,810 | 10,233 | 4,827 |
| Cumulative quarter ended | | <i>Operational Indicators</i> | 30.6.2018 | Individual quarter ended | |
| 30.6.2017 | 30.6.2018 | | | 31.3.2018 | 30.6.2017 |
| | | Production ⁵ ('000 boe ⁶ per day) | | | |
| 887 | 989 | Crude oil and condensate | 982 | 995 | 875 |
| 1,455 | 1,394 | Natural gas | 1,323 | 1,466 | 1,422 |
| 2,342 | 2,383 | | 2,305 | 2,461 | 2,297 |
| | | Oil and gas entitlement ⁷ ('000 boe per day) | | | |
| 599 | 608 | Crude oil and condensate | 603 | 614 | 583 |
| 1,179 | 1,073 | Natural gas | 1,031 | 1,114 | 1,123 |
| 1,778 | 1,681 | | 1,634 | 1,728 | 1,706 |
| 2,745 | 2,788 | Malaysia average sales gas volume (mmscfd) ⁸ | 2,771 | 2,806 | 2,745 |
| 14.69 | 14.48 | LNG sales volume (million tonnes) | 6.56 | 7.92 | 7.19 |

Second quarter Revenue for the second quarter of 2018 was RM37.3 billion as compared to RM32.5 billion in the second quarter of 2017. Higher revenue was mainly contributed by higher average realised prices for crude oil. The increase was partially offset by the unfavourable effect of strengthening of Ringgit against US Dollar exchange rate. PAT was higher by RM4.0 billion compared to the second quarter of 2017, mainly due to higher revenue as explained above coupled with lower net impairment on assets and non-FID costs for Pacific NorthWest LNG project in Canada which was recognised in the second quarter of 2017.

Total production volume for the second quarter of 2018 was 2,305 thousand boe per day as compared to 2,297 thousand boe per day in the second quarter of 2017 mainly due to higher liquid production from Iraq and Turkmenistan.

Malaysia average sales gas volume was higher by 26 mmscfd as compared to the second quarter of 2017 mainly due to higher demand.

Total LNG sales volume for the second quarter of 2018 was lower by 0.63 million tonnes as compared to the second quarter of 2017 mainly attributed to lower volume from PETRONAS LNG Complex ("PLC").

⁵ Represents Malaysia's production (PETRONAS Group and other Operators) and PETRONAS Group's international equity production volume.

⁶ boe: barrels of oil equivalent

⁷ Represents PETRONAS Group's sales entitlement to Malaysia's production and PETRONAS Group's international sales entitlement volume.

⁸ mmscfd: million standard cubic feet per day

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



PART B – OTHER EXPLANATORY NOTES (continued)

12. REVIEW OF PERFORMANCE – UPSTREAM (continued)

Cumulative quarter Revenue for the first half of 2018 was RM74.6 billion as compared to RM67.1 billion in the first half of 2017 due to higher average realised prices for all products. The increase was partially offset by the unfavourable effect of strengthening of Ringgit against US Dollar exchange rate. PAT was higher by RM9.1 billion compared to the first half of 2017 mainly due to higher revenue as explained above coupled with lower net impairment on assets, lower finance costs resulting from lower borrowings and non-FID costs for Pacific NorthWest LNG project in Canada which was recognised in the first half of 2017.

Total production volume for the first half of 2018 was 2,383 thousand boe per day as compared to 2,342 thousand boe per day in the first half of 2017 mainly due to higher liquid production from Iraq and Turkmenistan.

Malaysia average sales gas volume was higher by 43 mmscfd as compared to the first half of 2017 mainly due to higher demand.

Total LNG sales volume for the first half of 2018 was lower by 0.21 million tonnes as compared to the first half of 2017 mainly attributed to lower volume from PLC and Gladstone LNG ("GLNG"), partially offset by higher volume from trading activities, PETRONAS Floating LNG 1 Ltd. ("PFLNG1") and Egyptian LNG ("ELNG").

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



PART B – OTHER EXPLANATORY NOTES (continued)

13. REVIEW OF PERFORMANCE – DOWNSTREAM

| Cumulative quarter ended | | <i>Financial Indicators</i> | 30.6.2018 | Individual quarter ended | |
|--------------------------|-----------|--|-----------|--------------------------|-----------|
| 30.6.2017 | 30.6.2018 | | | 31.3.2018 | 30.6.2017 |
| Restated | | <i>In RM Mil</i> | | | Restated |
| | | Revenue | | | |
| 51,112 | 56,593 | Third party | 30,410 | 26,183 | 24,153 |
| 2,250 | 2,602 | Inter-segment | 1,301 | 1,301 | 1,149 |
| 53,362 | 59,195 | | 31,711 | 27,484 | 25,302 |
| 5,051 | 5,155 | PAT | 3,190 | 1,965 | 2,216 |
| Cumulative quarter ended | | <i>Operational Indicators</i> | 30.6.2018 | Individual quarter ended | |
| 30.6.2017 | 30.6.2018 | | | 31.3.2018 | 30.6.2017 |
| | | Petroleum products sales volume (in million barrels) | 61.9 | 58.3 | 59.7 |
| 121.2 | 120.2 | Crude oil sales volume (in million barrels) | 33.1 | 33.3 | 31.3 |
| 66.3 | 66.4 | Petrochemicals sales volume (in million metric tonnes) | 2.2 | 2.2 | 2.0 |
| 4.0 | 4.5 | | | | |

Second quarter Revenue for the second quarter of 2018 was RM31.7 billion, an increase of RM6.4 billion compared to the second quarter of 2017 mainly driven by higher volume and average realised prices for crude oil, petroleum and petrochemical products. PAT stood at RM3.2 billion which is higher than the second quarter of 2017 by RM1.0 billion as a result of improved petrochemical product spreads and higher refining margins from both domestic as well as international refineries.

Petroleum products and crude oil sales volume were 61.9 million barrels and 33.1 million barrels respectively, higher than second quarter of 2017 by 2.2 million barrels and 1.8 million barrels mainly due to higher trading volume.

Petrochemical products sales volume was higher by 0.2 million metric tonnes compared to the second quarter of 2017 contributed by higher production volume.

Cumulative quarter Revenue for the first half of 2018 was RM59.2 billion, RM5.8 billion higher than the revenue from the first half of 2017 mainly due to higher average realised prices for crude oil, petroleum and petrochemical products. PAT stood at RM5.2 billion, slightly higher by RM0.1 billion compared to the first half of 2017 mainly contributed by better petrochemical product spreads and higher refining margins, offset by higher net foreign exchange losses.

Petroleum products sales volume was 120.2 million barrels, slightly lower than the first half of 2017 by 1.0 million barrels due to lower trading volumes following limited trading opportunities in the first quarter of 2018. Crude oil sales volume was relatively comparable to the first half of 2017 at 66.4 million barrels.

Petrochemical products sales volume was higher by 0.5 million metric tonnes compared to the first half of 2017 in line with higher production volume.

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



PART B – OTHER EXPLANATORY NOTES (continued)

14. REVIEW OF PERFORMANCE – CORPORATE AND OTHERS

| Cumulative quarter ended | | <i>Financial Indicators</i> | 30.6.2018 | Individual quarter ended | |
|--------------------------|-----------|-----------------------------|-----------|--------------------------|-----------|
| 30.6.2017 | 30.6.2018 | | | 31.3.2018 | 30.6.2017 |
| Restated | | <i>In RM Mil</i> | | | Restated |
| | | Revenue | | | |
| 7,375 | 7,089 | Third party | 3,512 | 3,577 | 3,176 |
| 2,116 | 1,979 | Inter-segment | 1,053 | 926 | 1,122 |
| 9,491 | 9,068 | | 4,565 | 4,503 | 4,298 |
| (167) | 1,364 | (LAT) ⁹ /PAT | 1,335 | 29 | (973) |

Second quarter Revenue for the second quarter of 2018 was RM4.6 billion, higher by RM0.3 billion or 7% as compared to the second quarter of 2017 mainly due to higher sale of land and development properties coupled with higher fund investment income partially offset by lower shipping income. The segment recorded PAT of RM1.3 billion in the second quarter of 2018 as compared to LAT of RM1.0 billion in the second quarter of 2017 mainly due to lower net foreign exchange losses.

Cumulative quarter Revenue for the first half of 2018 was RM9.1 billion, lower by RM0.4 billion as compared to the first half of 2017 mainly due to lower shipping income partially offset by higher sale of land and development properties coupled with higher fund investment income. PAT of RM1.4 billion for the first half of 2018 as compared to LAT of RM0.2 billion for the first half of 2017 mainly due to lower net foreign exchange losses.

15. COMPARISON WITH PRECEDING QUARTER'S RESULT

| <i>In RM Mil</i> | Individual quarter ended | |
|------------------|--------------------------|-----------|
| | 30.6.2018 | 31.3.2018 |
| Revenue | 59,237 | 57,922 |
| PAT | 13,625 | 13,023 |
| EBITDA | 27,193 | 25,037 |

PETRONAS Group's revenue of RM59.2 billion for the second quarter of 2018 was higher by RM1.3 billion or 2% as compared to the first quarter of 2018. The increase was primarily due to the higher average realised prices for petroleum products and crude oil & condensates and the favourable effect of weakening of Ringgit against US Dollar exchange rate. These were largely offset by the impact of lower sales volume for LNG.

PAT for the second quarter of 2018 increased by RM0.6 billion as compared to the first quarter of 2018 primarily due to net foreign exchange gain partially offset by lower write-back on impairment and higher well costs. EBITDA for the second quarter of 2018 was RM27.2 billion.

16. CURRENT FINANCIAL YEAR PROSPECTS

The Group will maintain its prudent view on the outlook and will continue to emphasise on productivity and growth strategies. The Board expects the overall year end performance to be satisfactory.

⁹ LAT: Loss After Tax

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



PART B – OTHER EXPLANATORY NOTES (continued)

17. TAXATION

| <i>In RM Mil</i> | Individual quarter ended | | Cumulative quarter ended | |
|---|--------------------------|-----------------|--------------------------|-----------------|
| | 2018 | 30 June 2017 | 2018 | 30 June 2017 |
| Current tax expenses | | | | |
| Malaysia | 4,795 | 3,980 | 9,582 | 8,108 |
| Overseas | 475 | 291 | 566 | 556 |
| Deferred tax expenses | | | | |
| Origination and reversal of temporary differences | 282 | (746) | 637 | 47 |
| | <u>5,552</u> | <u>3,525</u> | <u>10,785</u> | <u>8,711</u> |

The Group's effective tax rate for the current quarter and period-to-date was 29.0% and 28.8% respectively.

18. CASH, FUND AND OTHER INVESTMENTS

| <i>In %</i> | As at 30.6.2018 | As at 31.12.2017 |
|---------------------------------|--------------------|---------------------|
| By Currency | | |
| RM | 68.4 | 69.5 |
| USD | 29.1 | 27.9 |
| Others | 2.5 | 2.6 |
| | <u>100.0</u> | <u>100.0</u> |
| By Maturity¹⁰ | | |
| < 1 year | 97.0 | 96.6 |
| 1 to 5 years | 1.9 | 2.1 |
| 5 to 10 years | 1.1 | 1.3 |
| | <u>100.0</u> | <u>100.0</u> |
| By Type | | |
| Money market | 96.4 | 93.9 |
| Corporate bonds | 2.2 | 2.9 |
| Equities | 1.4 | 3.2 |
| | <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 2018



PART B – OTHER EXPLANATORY NOTES (continued)

19. BORROWINGS

The details of the Group borrowings as at 30 June 2018 are as follows:

| <i>In RM Mil</i> | As at 30.6.2018 | As at 31.12.2017 |
|---|----------------------------|-----------------------------|
| Non-Current | | |
| Secured | | |
| Term loans | 4,589 | 3,199 |
| Islamic financing facilities | 1,642 | 1,444 |
| Total non-current secured borrowings | 6,231 | 4,643 |
| Unsecured | | |
| Term loans | 6,411 | 6,585 |
| Notes and Bonds | 33,196 | 33,297 |
| Islamic financing facilities | 9,048 | 9,226 |
| Total non-current unsecured borrowings | 48,655 | 49,108 |
| Total non-current borrowings | 54,886 | 53,751 |
| Current | | |
| Secured | | |
| Term loans | 326 | 1,057 |
| Islamic financing facilities | 747 | 696 |
| Total current secured borrowings | 1,073 | 1,753 |
| Unsecured | | |
| Term loans | 8,178 | 6,141 |
| Islamic financing facilities | 353 | 354 |
| Revolving credits | 1,818 | 2,129 |
| Bank overdrafts | 41 | 21 |
| Total current unsecured borrowings | 10,390 | 8,645 |
| Total current borrowings | 11,463 | 10,398 |
| Total borrowings | 66,349 | 64,149 |

INTERIM FINANCIAL REPORT

FOR SECOND QUARTER 2018



PART B – OTHER EXPLANATORY NOTES (continued)

19. BORROWINGS (continued)

| <i>In RM Mil</i> | As at | | As at | |
|------------------------------|---------------|--------------|---------------|--------------|
| | 30.6.2018 | % | 31.12.2017 | % |
| By Currency | | | | |
| USD | 55,801 | 84.1 | 53,411 | 83.3 |
| RM | 7,256 | 10.9 | 7,178 | 11.2 |
| EUR | 2,031 | 3.1 | 2,123 | 3.3 |
| GBP | 896 | 1.4 | 1,143 | 1.8 |
| Others | 365 | 0.5 | 294 | 0.4 |
| | 66,349 | 100.0 | 64,149 | 100.0 |
| By Repayment Schedule | | | | |
| < 1 year | 11,463 | 17.3 | 10,398 | 16.2 |
| 1 to 5 years | 36,281 | 54.7 | 34,743 | 54.2 |
| 5 to 10 years | 10,488 | 15.9 | 10,804 | 16.8 |
| > 10 years | 8,117 | 12.1 | 8,204 | 12.8 |
| | 66,349 | 100.0 | 64,149 | 100.0 |

20. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 30 June 2018.

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 2018



PART B – OTHER EXPLANATORY NOTES (continued)

22. PROFIT FOR THE PERIOD

| <i>In RM Mil</i> | Individual quarter ended | | Cumulative quarter ended | |
|---|--------------------------|-----------------|--------------------------|-----------------|
| | 2018 | 30 June 2017 | 2018 | 30 June 2017 |
| Included in profit for the period are the following charges: | | | | |
| Depreciation and amortisation | 8,915 | 8,698 | 17,533 | 17,418 |
| Loss on disposal of: | | | | |
| - property, plant and equipment | 79 | 9 | 84 | 16 |
| - intangible assets | - | - | - | 7 |
| - other investments | - | 10 | - | - |
| Net impairment losses on: | | | | |
| - property, plant and equipment | 166 | 1,876 | - | 1,887 |
| - other investments | - | - | 4 | - |
| Net impairment/write-off on well costs ¹¹ | 183 | - | 211 | 573 |
| Net loss on derivatives | 8 | - | - | 8 |
| Net loss on foreign exchange | - | 1,516 | 1,191 | 2,797 |
| Property, plant and equipment written off | 9 | 255 | 11 | 263 |
| and credits: | | | | |
| Dividend income | 3 | 22 | 7 | 50 |
| Gain on disposal of: | | | | |
| - property, plant and equipment | 2 | 12 | 11 | 48 |
| - an associate | - | 28 | - | 28 |
| - other investments | 229 | - | 414 | 43 |
| - subsidiaries | - | 7 | 501 | 7 |
| Interest income | 1,542 | 1,010 | 2,755 | 2,060 |
| Net gain on derivatives | - | 23 | 15 | - |
| Net gain on foreign exchange | 87 | - | - | - |
| Net impairment/write-off on well costs ¹¹ | - | 50 | - | - |
| Net write-back of impairment losses on: | | | | |
| - property, plant and equipment | - | - | 747 | - |
| - receivables | 348 | 743 | 516 | 541 |

23. DIVIDENDS

As disclosed in Note 6.

24. EXCHANGE RATES

| US dollar/RM | 30.6.2018 | Individual quarter ended | | 30.6.2018 | Cumulative quarter ended | |
|--------------|-----------|--------------------------|-----------|-----------|--------------------------|------------|
| | | 31.3.2018 | 30.6.2017 | | 30.6.2017 | 31.12.2017 |
| Average rate | 3.9487 | 3.9248 | 4.3329 | 3.9368 | 4.3900 | 4.3002 |
| Closing rate | 4.0455 | 3.8620 | 4.2950 | 4.0455 | 4.2950 | 4.0595 |

By order of the Board

Halimatun Sa'adiah Abd Halim (LS0008494)
Company Secretary
Kuala Lumpur
28 August 2018

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