



PETRONAS

PETRONAS Group Interim Financial Report

For First Quarter 2018

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INTERIM FINANCIAL REPORT

FOR FIRST QUARTER 2018



| Key Financial and Operational Highlights | Quarter ended | |
|-----------------------------------------------------------------------------|---------------|-----------|
| | 31.3.2018 | 31.3.2017 |
| Revenue (RM mil) | 57,922 | 56,519 |
| Profit Before Taxation (RM mil) | 18,256 | 15,482 |
| Profit After Tax (RM mil) | 13,023 | 10,296 |
| Net impairment write-back/(losses), net of tax (RM mil) | 1,077 | (211) |
| Profit After Tax excluding net impairment (RM mil) | 11,946 | 10,507 |
| EBITDA (RM mil) | 25,037 | 24,616 |
| Cash flows from operating activities (RM mil) | 21,942 | 18,040 |
| Capital investments (RM mil) | 11,963 | 11,928 |
| Crude oil, condensate and natural gas entitlement volume ('000 boe per day) | 1,728 | 1,850 |

- **PETRONAS Group's revenue for the first quarter of 2018 increased by 2%** as compared to the corresponding quarter last year mainly due to higher average realised prices recorded across all products largely offset by the effect of strengthening of Ringgit against US Dollar exchange rate.
- **The Group recorded Profit Before Taxation ("PBT") of RM18.3 billion and Profit After Tax ("PAT") of RM13.0 billion for the first quarter of 2018, increased by 18% and 26% respectively**, compared to the corresponding quarter last year, primarily due to higher revenue, net write-back on impairment partially offset by higher net product & production costs. **Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") increased by 2%** compared to the corresponding quarter last year in line with higher PBT.
- **Cash flows from operating activities for the first quarter of 2018 increased by 22%** as compared to the corresponding quarter last year mainly due to higher average realised prices.
- **Capital investments** in the first quarter of 2018 totalled **RM12.0 billion**, mainly attributable to Refinery and Petrochemical Integrated Development ("RAPID") project in Johor.
- **Crude oil, condensate and natural gas entitlement volume in the first quarter of 2018 was 1,728 thousand boe per day** compared to 1,850 thousand boe per day in the corresponding quarter last year. Total production volume in the first quarter of 2018 was 2,461 thousand boe per day compared to 2,387 thousand boe per day in the corresponding quarter 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 first quarter ended 31 March 2018 which should be read in conjunction with the Explanatory Notes on pages 7 to 19.

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

| <i>In RM Mil</i> | 2018 | Quarter ended 31 March 2017 |
|-----------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------|
| Revenue | 57,922 | 56,519 |
| Cost of revenue | (35,421) | (34,944) |
| Gross profit | 22,501 | 21,575 |
| Selling and distribution expenses | (1,541) | (1,534) |
| Administration expenses | (3,027) | (2,947) |
| Net impairment write-back/(losses) ¹ | 1,077 | (213) |
| Other expenses | (1,811) | (1,533) |
| Other income | 1,786 | 790 |
| Operating profit | 18,985 | 16,138 |
| Financing costs | (839) | (857) |
| Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures | 110 | 201 |
| Profit before taxation | 18,256 | 15,482 |
| Tax expense | (5,233) | (5,186) |
| PROFIT FOR THE PERIOD | 13,023 | 10,296 |
| Other comprehensive (expenses)/income | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | |
| Fair value through other comprehensive income ("OCI") | | |
| - Changes in fair value | (6) | - |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | |
| Net movements from exchange differences | (7,674) | (1,452) |
| Available-for-sale financial assets | | |
| - Changes in fair value | - | (524) |
| - Transfer to profit or loss | - | (43) |
| Others | 94 | 122 |
| Total other comprehensive expenses for the period | (7,586) | (1,897) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 5,437 | 8,399 |
| Profit attributable to: | | |
| Shareholders of the Company | 11,402 | 8,205 |
| Non-controlling interests | 1,621 | 2,091 |
| PROFIT FOR THE PERIOD | 13,023 | 10,296 |
| Total comprehensive income attributable to: | | |
| Shareholders of the Company | 4,597 | 6,622 |
| Non-controlling interests | 840 | 1,777 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 5,437 | 8,399 |

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| <i>In RM Mil</i> | As at 31.3.2018 | As at 31.12.2017 |
|-----------------------------------------------------------------------------|--------------------|---------------------|
| ASSETS | | |
| Property, plant and equipment | 287,432 | 327,458 |
| Investment properties, land held for development and prepaid lease payments | 14,244 | 14,458 |
| Investments in associates and joint ventures | 15,836 | 13,092 |
| Intangible assets | 21,187 | 22,079 |
| Fund and other investments | 589 | 544 |
| Other non-current assets | 22,366 | 23,703 |
| TOTAL NON-CURRENT ASSETS | 361,654 | 401,334 |
| Trade and other inventories | 13,650 | 15,379 |
| Trade and other receivables | 43,187 | 44,035 |
| Fund and other investments | 7,104 | 7,754 |
| Cash and cash equivalents | 164,725 | 128,209 |
| Other current assets | 2,499 | 3,139 |
| TOTAL CURRENT ASSETS | 231,165 | 198,516 |
| TOTAL ASSETS | 592,819 | 599,850 |
| EQUITY | | |
| Share capital | 100 | 100 |
| Reserves | 390,626 | 389,694 |
| Total equity attributable to shareholders of the Company | 390,726 | 389,794 |
| Non-controlling interests | 41,791 | 43,041 |
| TOTAL EQUITY | 432,517 | 432,835 |
| LIABILITIES | | |
| Borrowings | 51,965 | 53,751 |
| Deferred tax liabilities | 7,788 | 8,177 |
| Other long term liabilities and provisions | 37,789 | 37,385 |
| TOTAL NON-CURRENT LIABILITIES | 97,542 | 99,313 |
| Trade and other payables | 46,178 | 53,291 |
| Borrowings | 12,655 | 10,398 |
| Taxation | 3,927 | 4,013 |
| TOTAL CURRENT LIABILITIES | 62,760 | 67,702 |
| TOTAL LIABILITIES | 160,302 | 167,015 |
| TOTAL EQUITY AND LIABILITIES | 592,819 | 599,850 |

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to shareholders of the Company | | | | |
|-----------------------------------------------------------------|---------------------------------------------|---------------------|-----------------------------------------------|-----------------------------------------|-----------------------------------|
| | Non-distributable | | Foreign Currency Translation Reserve | Fair Value through OCI Reserve | Available- for-sale Reserve |
| <i>In RM Mil</i> | Share Capital | Capital Reserves | | | |
| Quarter ended 31 March 2017 | | | | | |
| Balance at 1 January 2017 | 100 | 13,989 | 43,232 | - | 2,792 |
| Net movements from exchange differences | - | - | (1,133) | - | - |
| Available-for-sale financial assets: | | | | | |
| - Changes in fair value | - | - | - | - | (523) |
| - Transfer to profit or loss | - | - | - | - | (43) |
| Other comprehensive expenses | - | 116 | - | - | - |
| Total other comprehensive income/(expenses) for the period | - | 116 | (1,133) | - | (566) |
| Profit for the period | - | - | - | - | - |
| Total comprehensive income/(expenses) for the period | - | 116 | (1,133) | - | (566) |
| Additional issuance of shares to non-controlling interests | - | - | - | - | - |
| Changes in ownership interest in a subsidiary | - | (12) | 25 | - | - |
| Redemption of redeemable preference shares in a subsidiary | - | 4 | - | - | - |
| Dividends | - | - | - | - | - |
| Total transactions with shareholders | - | (8) | 25 | - | - |
| Balance at 31 March 2017 | 100 | 14,097 | 42,124 | - | 2,226 |
| Quarter ended 31 March 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 | - |
| Net movements from exchange differences | - | - | (6,886) | - | - |
| Fair value through other comprehensive income: | | | | | |
| - Changes in fair value | - | - | - | (6) | - |
| Other comprehensive income | - | 87 | - | - | - |
| Total other comprehensive income/(expenses) for the period | - | 87 | (6,886) | (6) | - |
| Profit for the period | - | - | - | - | - |
| Total comprehensive income/(expenses) for the period | - | 87 | (6,886) | (6) | - |
| Additional issuance of shares to non-controlling interests | - | - | - | - | - |
| Changes in ownership interest in a subsidiary | - | - | - | - | - |
| Redemption of redeemable preference shares in subsidiaries | - | 29 | - | - | - |
| Dividends | - | - | - | - | - |
| Total transactions with shareholders | - | 29 | - | - | - |
| Balance at 31 March 2018 | 100 | 14,541 | 24,381 | 69 | - |

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

| | <i>Attributable to shareholders of the Company</i> | | | | |
|-------------------------------------------------------------|----------------------------------------------------|------------------|---------|---------------------------|--------------|
| | <u>Distributable</u> | | | | |
| <i>In RM Mil</i> | General Reserve | Retained Profits | Total | Non-controlling Interests | Total Equity |
| Quarter ended 31 March 2017 | | | | | |
| Balance at 1 January 2017 | 12,000 | 308,173 | 380,286 | 43,262 | 423,548 |
| Net movements from exchange differences | - | - | (1,133) | (319) | (1,452) |
| Available-for-sale financial assets: | | | | | |
| - Changes in fair value | - | - | (523) | (1) | (524) |
| - Transfer to profit or loss | - | - | (43) | - | (43) |
| Other comprehensive expenses | - | - | 116 | 6 | 122 |
| Total other comprehensive income/(expenses) for the period | - | - | (1,583) | (314) | (1,897) |
| Profit for the period | - | 8,205 | 8,205 | 2,091 | 10,296 |
| Total comprehensive income/(expenses) for the period | - | 8,205 | 6,622 | 1,777 | 8,399 |
| Additional issuance of shares to non-controlling interests | - | - | - | 5 | 5 |
| Changes in ownership interest in a subsidiary | - | (43) | (30) | 425 | 395 |
| Redemption of redeemable preference shares in a subsidiary | - | (4) | - | - | - |
| Dividends | - | - | - | (2,274) | (2,274) |
| Total transactions with shareholders | - | (47) | (30) | (1,844) | (1,874) |
| Balance at 31 March 2017 | 12,000 | 316,331 | 386,878 | 43,195 | 430,073 |
| Quarter ended 31 March 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 | - | 780 | (420) | (49) | (469) |
| At 1 January 2018, restated | 12,000 | 331,507 | 389,374 | 42,992 | 432,366 |
| Net movements from exchange differences | - | - | (6,886) | (788) | (7,674) |
| Fair value through other comprehensive income: | | | | | |
| - Changes in fair value | - | - | (6) | - | (6) |
| Other comprehensive income | - | - | 87 | 7 | 94 |
| Total other comprehensive income/(expenses) for the period | - | - | (6,805) | (781) | (7,586) |
| Profit for the period | - | 11,402 | 11,402 | 1,621 | 13,023 |
| Total comprehensive income/(expenses) for the period | - | 11,402 | 4,597 | 840 | 5,437 |
| Additional issuance of shares to non-controlling interests | - | - | - | 7 | 7 |
| Changes in ownership interest in a subsidiary | - | (245) | (245) | (385) | (630) |
| Redemption of redeemable preference shares in subsidiaries | - | (29) | - | - | - |
| Dividends | - | (3,000) | (3,000) | (1,663) | (4,663) |
| Total transactions with shareholders | - | (3,274) | (3,245) | (2,041) | (5,286) |
| Balance at 31 March 2018 | 12,000 | 339,635 | 390,726 | 41,791 | 432,517 |

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| <i>In RM Mil</i> | 2018 | Quarter ended 31 March 2017 |
|--------------------------------------------------------------------------------------------------------------|----------------|--------------------------------------------|
| Cash flows from operating activities | | |
| Profit before taxation | 18,256 | 15,482 |
| Adjustments for: | | |
| Depreciation and amortisation | 8,618 | 8,720 |
| Net impairment (write-back)/loss on property, plant and equipment | (913) | 11 |
| Net impairment/write-off on well costs | 28 | 623 |
| Net impairment (write-back)/loss on receivables | (168) | 202 |
| Net impairment loss on other investments | 4 | - |
| Net inventories written down to net realisable value | 12 | - |
| Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures | (110) | (201) |
| Property, plant and equipment written off | 2 | 8 |
| Gain on disposal of property, plant and equipment, investments in subsidiaries and other investments | (695) | (89) |
| Loss on disposal of property, plant and equipment and intangible assets | 5 | 7 |
| Net (gain)/loss on derivatives | (23) | 32 |
| Unrealised (gain)/loss on foreign exchange | (1,437) | 1,581 |
| Interest income | (1,213) | (1,010) |
| Interest expenses | 839 | 857 |
| Operating profit before changes in working capital | 23,205 | 26,223 |
| Net change in working capital | 3,604 | (5,832) |
| Cash generated from operations | 26,809 | 20,391 |
| Interest income from fund and other investments | 618 | 594 |
| Interest expenses paid | (687) | (702) |
| Taxation paid | (4,798) | (2,243) |
| Net cash generated from operating activities | 21,942 | 18,040 |

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

| <i>In RM Mil</i> | 2018 | Quarter ended 31 March 2017 |
|-------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------------------------|
| Cash flows from investing activities | | |
| Investment in associates and joint ventures | (81) | (165) |
| Investment in securities and other investments | (120) | (440) |
| Proceeds from disposal/partial disposal of: | | |
| - investment in subsidiaries, net of cash disposed | 4,460 | - |
| - property, plant and equipment, prepaid lease payments, investment properties, intangible assets and assets classified as held for sale | 596 | 196 |
| - securities and other investments | 924 | 1,397 |
| 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 | (11,963) | (11,928) |
| Dividends received | 136 | 101 |
| Proceeds from redemption of preference shares in a joint venture | 155 | - |
| Net cash used in investing activities | (5,893) | (10,827) |
| Cash flows from financing activities | | |
| Repayment of borrowings | (977) | (1,404) |
| Drawdown of borrowings | 29,435 | 1,945 |
| Dividends paid | (3,000) | - |
| Dividends paid to non-controlling interests | (1,663) | (2,274) |
| Proceeds from shares issued to non-controlling interests | 7 | 5 |
| Proceeds from partial disposal of equity interest to non-controlling interests | - | 82 |
| Net cash generated from/(used in) financing activities | 23,802 | (1,646) |
| Net increase in cash and cash equivalents | 39,851 | 5,567 |
| Decrease/(increase) in deposits restricted | 2 | (75) |
| Net foreign exchange differences | (3,335) | (435) |
| Cash and cash equivalents at beginning of the period | 127,563 | 120,791 |
| Cash and cash equivalents at end of the period | 164,081 | 125,848 |
| Cash and cash equivalents | | |
| Cash and bank balances and deposits | 164,725 | 126,569 |
| Bank overdrafts | (21) | (96) |
| Less: Deposits restricted | (623) | (625) |
| | 164,081 | 125,848 |

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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 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.

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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 |
|-----------------------------------------|----------------------------------------------------------------------------------|
| <i>In RM Mil</i> | |
| Decrease in equity | 469 |
| Decrease in long term receivables | (65) |
| Decrease in trade and other receivables | (430) |
| 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.

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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 declared a second interim dividend of RM20,000 per ordinary share amounting to RM2 billion in respect of financial year ending 31 December 2018. The dividend will be paid in May 2018. The financial statement for the current quarter do not reflect this interim dividend and will be accounted for in equity as an appropriation of retained profits in the quarter ending 30 June 2018.

7. SIGNIFICANT EVENT

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 ("SPA") 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 PRPC Refinery & Cracker Sdn. Bhd. ("PRPC RC"), a wholly-owned subsidiary of PRPC and 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 SPA for the sale of PETRONAS' 100% interest in Prince Court Medical Centre ("PCMC") to Khazanah Nasional Berhad ("Khazanah") (via its wholly owned subsidiary Pulau Memutik Ventures Sdn. Bhd.). The divestment is expected to be completed by end of Q2 2018.

8. CHANGES IN COMPOSITION OF THE GROUP

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

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

9. FAIR VALUE INFORMATION

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

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

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

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

31 March 2018

In RM Mil

| | Level 1 | Level 2 | Total |
|------------------------------------|--------------|--------------|--------------|
| Financial assets | | | |
| Quoted shares | 3,070 | 30 | 3,100 |
| Quoted securities | 134 | 695 | 829 |
| Malaysian Government Securities | - | 42 | 42 |
| Corporate Private Debt Securities | - | 3,078 | 3,078 |
| Forward foreign exchange contracts | - | 44 | 44 |
| Forward gas contracts | 154 | - | 154 |
| Forward oil/gas price swaps | 79 | - | 79 |
| Interest rate swaps | - | 44 | 44 |
| | <u>3,437</u> | <u>3,933</u> | <u>7,370</u> |
| Financial liabilities | | | |
| Commodity swaps | - | (21) | (21) |
| Forward foreign exchange contracts | - | (11) | (11) |
| Forward gas contracts | (174) | - | (174) |
| Forward oil/gas price swaps | (27) | - | (27) |
| | <u>(201)</u> | <u>(32)</u> | <u>(233)</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> |

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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 describe in the Group's audited consolidated financial statements for the year ended 31 December 2017. Effective first quarter of 2018, there have 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 | | Quarter ended 31 March | |
|----------------------|---------------|------------------|---------------|------------------|---------------------------|------------------|
| | 2018 | 2017 Restated | 2018 | 2017 Restated | 2018 | 2017 Restated |
| <i>In RM Mil</i> | Third Parties | | Inter-segment | | Gross Total | |
| Upstream | 28,162 | 25,361 | 9,063 | 9,250 | 37,225 | 34,611 |
| Downstream | 26,183 | 26,959 | 1,301 | 1,101 | 27,484 | 28,060 |
| Corporate and Others | 3,577 | 4,199 | 926 | 993 | 4,503 | 5,192 |
| Total | 57,922 | 56,519 | 11,290 | 11,344 | 69,212 | 67,863 |

10.2 Segment PAT

| | Quarter ended 31 March | |
|-------------------------------------------|---------------------------|------------------|
| | 2018 | 2017 Restated |
| <i>In RM Mil</i> | | |
| Upstream | 10,233 | 5,072 |
| Downstream | 1,965 | 2,835 |
| Corporate and Others | 29 | 806 |
| Total PAT for reportable segments | 12,227 | 8,713 |
| Elimination of inter-segment transactions | 796 | 1,583 |
| Consolidated PAT | 13,023 | 10,296 |

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PART B – OTHER EXPLANATORY NOTES

11. REVIEW OF GROUP PERFORMANCE

| <i>In RM Mil</i> | Quarter ended | | |
|---------------------|------------------|-------------------|------------------|
| | 31.3.2018 | 31.12.2017 | 31.3.2017 |
| Revenue | 57,922 | 61,787 | 56,519 |
| PAT | 13,023 | 18,211 | 10,296 |
| EBITDA ² | 25,037 | 25,309 | 24,616 |

| <i>In RM Mil</i> | As at | |
|----------------------------|------------------|-------------------|
| | 31.3.2018 | 31.12.2017 |
| Total assets | 592,819 | 599,850 |
| Shareholders' equity | 390,726 | 389,794 |
| Gearing ratio ³ | 16.2% | 16.1% |
| ROACE ⁴ | 10.4% | 9.8% |

PETRONAS Group's recorded revenue of RM57.9 billion in the first quarter of 2018, an increase of 2% as compared to RM56.5 billion in the corresponding quarter last year. The increase in revenue was primarily driven by higher average realised prices recorded across all products largely offset by the effect of strengthening of Ringgit against US Dollar exchange rate.

The Group recorded PAT of RM13.0 billion, increased by 26% as compared to the corresponding quarter last year primarily due to higher revenue, net write-back on impairment partially offset by higher net product & production costs. EBITDA for the quarter was RM25.0 billion, an increase of 2% as compared to the corresponding quarter last year in line with higher PBT.

In Q1 2018, Sabah Sarawak Gas Pipeline was effected by geohazard issues which has resulted in pipeline gas leak. It is currently undergoing assessment and repairs. The shutdown is not expected to have any material impact to Upstream's performance this year.

Total assets decreased to RM592.8 billion as at 31 March 2018 as compared to RM599.8 billion as at 31 December 2017 primarily due to the strengthening of Ringgit against US Dollar exchange rate. Shareholders' equity of RM390.7 billion as at 31 March 2018 increased by RM0.9 billion compared to 31 December 2017 mainly due to profit generated during the period partially offset by the effect of strengthening of Ringgit against US Dollar exchange rate as well as interim dividend of RM3.0 billion for financial year ending 31 December 2018.

Gearing ratio increased to 16.2% as at 31 March 2018 compared to 16.1% as at 31 December 2017. ROACE increased to 10.4% as at 31 March 2018 compared to 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 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 trailing 12 months profit before interest expense after tax divided by average total equity and long term debt during the period.

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PART B – OTHER EXPLANATORY NOTES (continued)

12. REVIEW OF PERFORMANCE – UPSTREAM

Financial Indicators

| <i>In RM Mil</i> | 31.3.2018 | Quarter ended | |
|------------------|---------------|------------------------|-----------------------|
| | | 31.12.2017 Restated | 31.3.2017 Restated |
| Revenue | | | |
| Third party | 28,162 | 26,898 | 25,361 |
| Inter-segment | 9,063 | 10,013 | 9,250 |
| | 37,225 | 36,911 | 34,611 |
| PAT | 10,233 | 13,887 | 5,072 |

Operational Indicators

| | 31.3.2018 | Quarter ended | |
|---------------------------------------------------------|--------------|---------------|--------------|
| | | 31.12.2017 | 31.3.2017 |
| Production ⁵ ('000 boe ⁶ per day) | | | |
| Crude oil and condensate | 995 | 879 | 898 |
| Natural gas | 1,466 | 1,510 | 1,489 |
| | 2,461 | 2,389 | 2,387 |
| Oil and gas entitlement ⁷ ('000 boe per day) | | | |
| Crude oil and condensate | 614 | 606 | 615 |
| Natural gas | 1,114 | 1,207 | 1,235 |
| | 1,728 | 1,813 | 1,850 |
| Malaysia average sales gas volume (mmscfd) ⁸ | 2,806 | 2,546 | 2,745 |
| LNG sales volume (million tonnes) | 7.92 | 8.81 | 7.50 |

Revenue for the quarter was RM37.2 billion compared to RM34.6 billion in the corresponding quarter last year. Higher revenue was mainly contributed by higher average realised prices across all products. The increase was partially offset by the effect of strengthening of Ringgit against US Dollar exchange rate. PAT increased to RM10.2 billion compared to RM5.1 billion in the corresponding quarter last year, mainly due to higher revenue as explained above coupled with net write-back on impairment.

Total production volume for the quarter was 2,461 thousand boe per day compared to 2,387 thousand boe per day in the corresponding quarter last year mainly due to higher gas demand in JDA and Turkmenistan.

Total LNG sales volume for the quarter was higher by 0.42 million tonnes as compared to the corresponding quarter last year mainly attributable to higher volume from PETRONAS LNG Complex ("PLC") coupled with higher volume from trading activities. In Q1 2018, Sabah Sarawak Gas Pipeline was effected by geohazard issues which has resulted in pipeline gas leak. It is currently undergoing assessment and repairs. The shutdown is not expected to have any material impact to Upstream's performance this year.

Malaysia average sales gas volume increased by 61 mmscfd compared to the corresponding quarter last year mainly due to higher demand.

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

⁸ mmscfd: million standard cubic feet per day

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PART B – OTHER EXPLANATORY NOTES (continued)

13. REVIEW OF PERFORMANCE – DOWNSTREAM

Financial Indicators

| <i>In RM Mil</i> | 31.3.2018 | Quarter ended | |
|------------------|---------------|------------------------|-----------------------|
| | | 31.12.2017 Restated | 31.3.2017 Restated |
| Revenue | | | |
| Third party | 26,183 | 30,868 | 26,959 |
| Inter-segment | 1,301 | 1,304 | 1,101 |
| | <u>27,484</u> | <u>32,172</u> | <u>28,060</u> |
| PAT | 1,965 | 2,837 | 2,835 |

Operational Indicators

| | 31.3.2018 | Quarter ended | |
|--------------------------------------------------------|-----------|---------------|-----------|
| | | 31.12.2017 | 31.3.2017 |
| Petroleum products sales volume (in million barrels) | 58.3 | 66.4 | 61.5 |
| Crude oil sales volume (in million barrels) | 33.3 | 40.6 | 35.0 |
| Petrochemicals sales volume (in million metric tonnes) | 2.2 | 2.1 | 2.0 |

Revenue for the quarter was RM27.5 billion, a decrease of RM0.6 billion as compared to corresponding quarter last year. The decrease in the current quarter revenue was a result of lower volumes for petroleum products and crude oil coupled with the effect of strengthening of Ringgit against US Dollar exchange rate partially offset by improved prices for crude oil, petroleum and petrochemical products.

Petroleum products and crude oil sales volumes were lower in the current quarter by 3.2 million barrels and 1.7 million barrels respectively mainly due to lower trading volumes following limited trading opportunities.

Petrochemical products sales volume increased by 0.2 million metric tonnes compared to the corresponding quarter last year in line with higher production.

Downstream PAT of RM2.0 billion was lower than the corresponding quarter last year by RM0.8 billion mainly due to lower domestic refining margin and the effect of strengthening of Ringgit against US Dollar exchange rate.

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PART B – OTHER EXPLANATORY NOTES (continued)

14. REVIEW OF PERFORMANCE – CORPORATE AND OTHERS

Financial Indicators

| <i>In RM Mil</i> | 31.3.2018 | Quarter ended | |
|------------------|--------------|------------------------|-----------------------|
| | | 31.12.2017 Restated | 31.3.2017 Restated |
| Revenue | | | |
| Third party | 3,577 | 4,020 | 4,199 |
| Inter-segment | 926 | 1,147 | 993 |
| | <u>4,503</u> | <u>5,167</u> | <u>5,192</u> |
| PAT | 29 | 1,948 | 806 |

Revenue for the first quarter of 2018 was RM4.5 billion, decreased by RM0.7 billion or 13% as compared to the corresponding quarter last year mainly due to lower shipping income partially offset by higher fund investment income. The segment PAT decreased by RM0.8 billion as compared to the corresponding quarter last year mainly due to lower shipping income.

15. COMPARISON WITH PRECEDING QUARTER'S RESULT

| <i>In RM Mil</i> | Quarter ended | |
|------------------|---------------|------------|
| | 31.3.2018 | 31.12.2017 |
| Revenue | 57,922 | 61,787 |
| PAT | 13,023 | 18,211 |
| EBITDA | 25,037 | 25,309 |

PETRONAS Group's revenue of RM57.9 billion for the first quarter of 2018 was lower by RM3.9 billion or 6% as compared to the preceding quarter mainly due to the impact of lower sales volume primarily from petroleum products and crude oil & condensate coupled with the effect of strengthening of Ringgit against US Dollar exchange rate. These were largely offset by the impact of higher average realised prices recorded for major products.

PAT for the first quarter of 2018 decreased by RM5.2 billion or 29% as compared to the preceding quarter primarily due to lower revenue and higher net foreign exchange losses partially offset by lower net product & production costs. EBITDA for the quarter was RM25.0 billion, decreased by 1% as compared to the preceding quarter.

16. CURRENT FINANCIAL YEAR PROSPECTS

The Group will continue to drive for productivity and growth on the back of oil price recovery. Subject to volatility of oil price and foreign exchange rate, the Board expects the overall year end performance to be satisfactory.

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PART B – OTHER EXPLANATORY NOTES (continued)

17. TAXATION

| <i>In RM Mil</i> | Quarter ended 31 March | |
|---------------------------------------------------|---------------------------|--------------|
| | 2018 | 2017 |
| Current tax expenses | | |
| Malaysia | 4,787 | 4,127 |
| Overseas | 91 | 265 |
| Deferred tax expenses | | |
| Origination and reversal of temporary differences | 355 | 794 |
| | <u>5,233</u> | <u>5,186</u> |

The Group's effective tax rate for the current quarter was 28.7%.

18. CASH, FUND AND OTHER INVESTMENTS

| <i>In %</i> | As at 31.3.2018 | As at 31.12.2017 |
|--------------------------------|--------------------|---------------------|
| By Currency | | |
| RM | 69.2 | 69.5 |
| USD | 28.7 | 27.9 |
| Others | 2.1 | 2.6 |
| | <u>100.0</u> | <u>100.0</u> |
| By Maturity⁹ | | |
| < 1 year | 96.9 | 96.6 |
| 1 to 5 years | 2.0 | 2.1 |
| 5 to 10 years | 1.1 | 1.3 |
| | <u>100.0</u> | <u>100.0</u> |
| By Type | | |
| Money market | 95.6 | 93.9 |
| Corporate bonds | 2.4 | 2.9 |
| Equities | 2.0 | 3.2 |
| | <u>100.0</u> | <u>100.0</u> |

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

⁹ Refers to instrument maturity dates; excludes equities.

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PART B – OTHER EXPLANATORY NOTES (continued)

19. BORROWINGS

The details of the Group borrowings as at 31 March 2018 are as follows:

| <i>In RM Mil</i> | As at 31.3.2018 | As at 31.12.2017 |
|-----------------------------------------------|----------------------------|-----------------------------|
| Non-Current | | |
| Secured | | |
| Term loans | 2,990 | 3,199 |
| Islamic financing facilities | 2,045 | 1,444 |
| Total non-current secured borrowings | 5,035 | 4,643 |
| Unsecured | | |
| Term loans | 6,271 | 6,585 |
| Notes and Bonds | 31,684 | 33,297 |
| Islamic financing facilities | 8,975 | 9,226 |
| Total non-current unsecured borrowings | 46,930 | 49,108 |
| Total non-current borrowings | 51,965 | 53,751 |
| Current | | |
| Secured | | |
| Term loans | 1,662 | 1,057 |
| Islamic financing facilities | 373 | 696 |
| Total current secured borrowings | 2,035 | 1,753 |
| Unsecured | | |
| Term loans | 7,798 | 6,141 |
| Islamic financing facilities | 361 | 354 |
| Revolving credits | 2,440 | 2,129 |
| Bank overdrafts | 21 | 21 |
| Total current unsecured borrowings | 10,620 | 8,645 |
| Total current borrowings | 12,655 | 10,398 |
| Total borrowings | 64,620 | 64,149 |

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PART B – OTHER EXPLANATORY NOTES (continued)

19. BORROWINGS (continued)

| <i>In RM Mil</i> | As at | | As at | |
|------------------------------|---------------|--------------|---------------|--------------|
| | 31.3.2018 | % | 31.12.2017 | % |
| By Currency | | | | |
| USD | 53,665 | 83.0 | 53,411 | 83.2 |
| RM | 7,660 | 11.9 | 7,178 | 11.2 |
| EUR | 2,080 | 3.2 | 2,123 | 3.3 |
| GBP | 879 | 1.4 | 1,143 | 1.8 |
| Others | 336 | 0.5 | 294 | 0.5 |
| | 64,620 | 100.0 | 64,149 | 100.0 |
| By Repayment Schedule | | | | |
| < 1 year | 12,655 | 19.6 | 10,398 | 16.2 |
| 1 to 5 years | 34,239 | 53.0 | 34,743 | 54.2 |
| 5 to 10 years | 9,949 | 15.4 | 10,804 | 16.8 |
| > 10 years | 7,777 | 12.0 | 8,204 | 12.8 |
| | 64,620 | 100.0 | 64,149 | 100.0 |

20. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 31 March 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.

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PART B – OTHER EXPLANATORY NOTES (continued)

22. PROFIT FOR THE PERIOD

| <i>In RM Mil</i> | 2018 | Quarter ended 31 March 2017 |
|---------------------------------------------------------------------|--------------|--------------------------------------------|
| Included in profit for the period are the following charges: | | |
| Depreciation and amortisation | 8,618 | 8,720 |
| Net impairment losses on: | | |
| - property, plant and equipment | - | 11 |
| - receivables | - | 202 |
| - other investments | 4 | - |
| Loss on disposal of: | | |
| - property, plant and equipment | 5 | - |
| - intangible assets | - | 7 |
| Net impairment/write-off on well costs ¹⁰ | 28 | 623 |
| Net loss on derivatives | - | 32 |
| Net loss on foreign exchange | 1,278 | 1,281 |
| Property, plant and equipment written off | 2 | 8 |
| and credits: | | |
| Dividend income | 4 | 28 |
| Gain on disposal of: | | |
| - property, plant and equipment | 9 | 36 |
| - other investments | 185 | 53 |
| - subsidiaries | 501 | - |
| Interest income | 1,213 | 1,010 |
| Net gain on derivatives | 23 | - |
| Net write-back of impairment losses on: | | |
| - property, plant and equipment | 913 | - |
| - receivables | 168 | - |

23. DIVIDENDS

As disclosed in Note 6.

24. EXCHANGE RATES

| | 31.3.2018 | 31.12.2017 | Quarter ended 31.3.2017 |
|--------------|------------------|-------------------|------------------------------------|
| US dollar/RM | | | |
| Average rate | 3.9248 | 4.1590 | 4.4472 |
| Closing rate | 3.8620 | 4.0595 | 4.4240 |

By order of the Board

Halimatun Sa'adiah Abd Halim (LS0008494)
Company Secretary
Kuala Lumpur
22 May 2018

¹⁰ Comprises impairment and write-off of exploration expenditure under intangible assets.