



PETRONAS

PETRONAS Group Interim Financial Report

For Fourth Quarter 2016

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INTERIM FINANCIAL REPORT

FOR FOURTH QUARTER 2016



Cumulative quarter ended		Key Financial and Operational Highlights	Individual quarter ended		
31.12.2015	31.12.2016		31.12.2016	30.9.2016	31.12.2015
247,657	204,908	Revenue (RM mil)	58,601	48,741	60,098
36,683	33,656	Profit Before Taxation (RM mil)	15,601	8,009	1,224
20,860	23,508	Profit/(Loss) After Tax (RM mil)	11,255	6,070	(2,958)
(18,351)	(16,638)	Identified items* (RM mil)	(3,819)	(1,022)	(11,360)
		Profit After Tax excluding			
39,211	40,146	identified items (RM mil)	15,074	7,092	8,402
75,455	70,413	EBITDA (RM mil)	21,908	15,151	19,177
		Cash flows from operating			
69,641	53,843	activities (RM mil)	17,711	10,502	18,439
64,658	50,365	Capital investments (RM mil)	14,427	10,776	14,984
		Crude oil, condensate and natural gas			
1,624	1,794	entitlement volume ('000 boe per day)	1,909	1,802	1,670

*mainly comprise net impairment on assets

Fourth quarter 2016

- **PETRONAS Group's revenue for the fourth quarter of 2016 decreased by 2%** as compared to the corresponding quarter last year mainly due to lower average realised product prices recorded for processed gas and LNG following the downward trend of JCC price and the impact of lower sales volume mainly from crude oil and condensate and petroleum products partially offset by the impact of higher sales volume mainly from processed gas and LNG.
- **The Group recorded Profit Before Taxation ("PBT") of RM15.6 billion and Profit After Tax ("PAT") of RM11.3 billion for the current quarter** mainly contributed by lower net impairment on assets coupled with lower net product and production costs partially offset by lower net foreign exchange gain following weakening of Ringgit against US Dollar. **Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") increased by 14%** as compared to the corresponding quarter last year in line with higher PBT.
- **Cash flows from operating activities decreased by 4%** as compared to the corresponding quarter last year in line with lower revenue recorded for the quarter.
- **Capital investments in fourth quarter of 2016 totalled RM14.4 billion**, mainly attributable to the Refinery and Petrochemical Integrated Development ("RAPID") project in Johor, domestic upstream projects and Sabah Ammonia Urea ("SAMUR") project.
- **Crude oil, condensate and natural gas entitlement volume in the fourth quarter of 2016 was 1,909 thousand barrels of oil equivalent ("boe") per day** compared with 1,670 thousand boe per day. The increase was in line with higher production. Total production volume was 2,444 thousand boe per day compared to 2,326 thousand boe per day in the corresponding quarter last year.

Cumulative quarter ended 31 December 2016

- **PETRONAS Group's revenue for the year ended 31 December 2016 decreased by 17%** as compared to 2015 mainly due to lower average realised product prices recorded across all products following the downward trend of key benchmark prices (Dated Brent and JCC) coupled with the impact of lower sales volume mainly from crude oil and condensate and petroleum products. This was partially offset by the effect of weakening of Ringgit against US Dollar.
- **The Group recorded PBT of RM33.6 billion for the year ended 31 December 2016**, lower by RM3.0 billion as compared to 2015 mainly contributed by lower realised product prices and sales volume partially offset by lower net product and production costs as well as lower net impairment on assets. However, **PAT of RM23.5 billion for the year** was higher mainly contributed by higher taxation recorded in FY2015 due to under provision of taxation in prior years. **EBITDA for the year was RM70.4 billion, a decrease of 7%** as compared to 2015 in line with lower PBT.
- **Cash flows from operating activities decreased by 23%** as compared to 2015 mainly due to lower realised product prices partially offset by lower tax paid.
- **Capital investments for the year ended 31 December 2016 totalled RM50.4 billion**, mainly attributable to the RAPID project in Johor, domestic upstream capital expenditures and SAMUR project in Sabah.
- **Crude oil, condensate and natural gas entitlement volume for the year ended 31 December 2016 was 1,794 thousand boe per day** compared with 1,624 thousand boe per day in 2015 in line with higher production. Total production volume was 2,363 thousand boe per day compared to 2,290 thousand boe per day in 2015.

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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 fourth quarter ended 31 December 2016 which should be read in conjunction with the Explanatory Notes on pages 7 to 20.

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

	Individual quarter ended		Cumulative quarter ended	
	2016	31 December 2015	2016	31 December 2015
<i>In RM Mil</i>				
Revenue	58,601	60,098	204,908	247,657
Cost of revenue	(37,951)	(48,011)	(147,198)	(176,680)
Gross profit	20,650	12,087	57,710	70,977
Selling and distribution expenses	(1,635)	(1,598)	(5,633)	(5,352)
Administration expenses	(3,648)	(2,415)	(9,979)	(9,688)
Net impairment losses ¹	(1,689)	(11,594)	(10,164)	(17,882)
Other expenses	(2,433)	(1,622)	(3,913)	(3,618)
Other income	5,167	7,019	8,064	4,535
Operating profit	16,412	1,877	36,085	38,972
Financing costs	(952)	(889)	(3,294)	(3,327)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	141	236	865	1,038
Profit before taxation	15,601	1,224	33,656	36,683
Tax expense	(4,346)	(4,182)	(10,148)	(15,823)
PROFIT/(LOSS) FOR THE PERIOD/YEAR	11,255	(2,958)	23,508	20,860
Other comprehensive income/(expenses)				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Net movements from exchange differences	10,311	(15,318)	3,213	30,377
Available-for-sale financial assets:				
- Changes in fair value	696	169	2,128	(889)
- Transfer to profit or loss	(29)	1,632	(34)	1,637
Others	(138)	(3)	(29)	375
Total other comprehensive income/(expenses) for the period/year	10,840	(13,520)	5,278	31,500
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE PERIOD/YEAR	22,095	(16,478)	28,786	52,360
Profit/(loss) attributable to:				
Shareholders of the Company	9,419	(4,694)	16,950	13,158
Non-controlling interests	1,836	1,736	6,558	7,702
PROFIT/(LOSS) FOR THE PERIOD/YEAR	11,255	(2,958)	23,508	20,860
Total comprehensive income/(expenses) attributable to:				
Shareholders of the Company	18,548	(17,039)	21,105	41,289
Non-controlling interests	3,547	561	7,681	11,071
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE PERIOD/YEAR	22,095	(16,478)	28,786	52,360

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31.12.2016	As at 31.12.2015
<i>In RM Mil</i>		
ASSETS		
Property, plant and equipment	333,977	310,268
Investment properties, land held for development and prepaid lease payments	14,530	13,869
Investments in associates and joint ventures	14,030	13,018
Intangible assets	25,552	34,304
Fund and other investments	786	7,373
Other non-current assets	23,335	25,590
TOTAL NON-CURRENT ASSETS	412,210	404,422
Trade and other inventories	13,764	12,838
Trade and other receivables	45,990	44,979
Fund and other investments	9,477	8,583
Cash and cash equivalents	121,492	120,731
Other current assets	359	354
TOTAL CURRENT ASSETS	191,082	187,485
TOTAL ASSETS	603,292	591,907
EQUITY		
Share capital	100	100
Reserves	380,186	374,776
Total equity attributable to shareholders of the Company	380,286	374,876
Non-controlling interests	43,262	40,776
TOTAL EQUITY	423,548	415,652
LIABILITIES		
Borrowings	57,659	53,939
Deferred tax liabilities	9,635	14,526
Other long term liabilities and provisions	37,918	35,125
TOTAL NON-CURRENT LIABILITIES	105,212	103,590
Trade and other payables	62,445	65,219
Borrowings	9,954	3,963
Taxation	2,133	3,483
TOTAL CURRENT LIABILITIES	74,532	72,665
TOTAL LIABILITIES	179,744	176,255
TOTAL EQUITY AND LIABILITIES	603,292	591,907

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company			
	Non-distributable			Available-for-sale Reserve
	Share Capital	Capital Reserves	Foreign Currency Translation Reserve	
<i>In RM Mil</i>				
Cumulative quarter ended 31 December 2015				
At 1 January 2015	100	13,622	14,250	(52)
Net movements from exchange differences	-	-	27,106	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	(890)
- Transfer to profit or loss	-	-	-	1,637
Other comprehensive income	-	278	-	-
Total other comprehensive income for the year	-	278	27,106	747
Profit for the year	-	-	-	-
Total comprehensive income for the year	-	278	27,106	747
Additional issuance of shares to non-controlling interests	-	-	-	-
Changes in ownership interest in subsidiaries	-	4	(63)	-
Redemption of redeemable preference shares in a subsidiary	-	-	-	-
Dividends	-	-	-	-
Total transactions with shareholders	-	4	(63)	-
Balance at 31 December 2015	100	13,904	41,293	695
Cumulative quarter ended 31 December 2016				
At 1 January 2016	100	13,904	41,293	695
Net movements from exchange differences	-	-	2,105	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	2,131
- Transfer to profit or loss	-	-	-	(34)
Other comprehensive (expenses)/income	-	(47)	-	-
Total other comprehensive (expenses)/income for the year	-	(47)	2,105	2,097
Profit for the year	-	-	-	-
Total comprehensive (expenses)/income for the year	-	(47)	2,105	2,097
Additional issuance of shares to non-controlling interests	-	-	-	-
Changes in ownership interest in subsidiaries	-	-	(166)	-
Redemption of redeemable preference shares in subsidiaries	-	132	-	-
Dividends	-	-	-	-
Total transactions with shareholders	-	132	(166)	-
Balance at 31 December 2016	100	13,989	43,232	2,792

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

In RM Mil	Attributable to shareholders of the Company				
	Distributable			Non-controlling Interests	Total Equity
	General Reserve	Retained Profits	Total		
Cumulative quarter ended 31 December 2015					
At 1 January 2015	12,000	314,748	354,668	37,261	391,929
Net movements from exchange differences	-	-	27,106	3,271	30,377
Available-for-sale financial assets:					
- Changes in fair value	-	-	(890)	1	(889)
- Transfer to profit or loss	-	-	1,637	-	1,637
Other comprehensive income	-	-	278	97	375
Total other comprehensive income for the year	-	-	28,131	3,369	31,500
Profit for the year	-	13,158	13,158	7,702	20,860
Total comprehensive income for the year	-	13,158	41,289	11,071	52,360
Additional issuance of shares to non-controlling interests	-	-	-	103	103
Changes in ownership interest in subsidiaries	-	4,978	4,919	(298)	4,621
Redemption of redeemable preference shares in a subsidiary	-	-	-	(111)	(111)
Dividends	-	(26,000)	(26,000)	(7,250)	(33,250)
Total transactions with shareholders	-	(21,022)	(21,081)	(7,556)	(28,637)
Balance at 31 December 2015	12,000	306,884	374,876	40,776	415,652
Cumulative quarter ended 31 December 2016					
At 1 January 2016	12,000	306,884	374,876	40,776	415,652
Net movements from exchange differences	-	-	2,105	1,108	3,213
Available-for-sale financial assets:					
- Changes in fair value	-	-	2,131	(3)	2,128
- Transfer to profit or loss	-	-	(34)	-	(34)
Other comprehensive (expenses)/income	-	-	(47)	18	(29)
Total other comprehensive (expenses)/income for the year	-	-	4,155	1,123	5,278
Profit for the year	-	16,950	16,950	6,558	23,508
Total comprehensive (expenses)/income for the year	-	16,950	21,105	7,681	28,786
Additional issuance of shares to non-controlling interests	-	-	-	30	30
Changes in ownership interest in subsidiaries	-	471	305	642	947
Redemption of redeemable preference shares in subsidiaries	-	(132)	-	(11)	(11)
Dividends	-	(16,000)	(16,000)	(5,856)	(21,856)
Total transactions with shareholders	-	(15,661)	(15,695)	(5,195)	(20,890)
Balance at 31 December 2016	12,000	308,173	380,286	43,262	423,548

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Cumulative quarter ended	
	2016	31 December 2015
<i>In RM Mil</i>		
Profit before taxation	33,656	36,683
Adjustments for:		
Depreciation and amortisation	25,309	24,258
Net impairment loss on property, plant and equipment	8,775	13,171
Net impairment loss on intangible assets	2,692	1,920
Net impairment/write-off on well costs	6,129	2,303
Net impairment loss on receivables	1,810	1,611
Net impairment (write back)/loss on investments in associates and joint ventures	(411)	1,307
Net impairment (write back)/loss on other investments	(10)	1,793
Net inventories written down to net realisable value	22	396
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	(865)	(1,038)
Property, plant and equipment written off	1,361	657
Gain on disposal of investments in subsidiaries, associates and joint ventures, other investments and property, plant and equipment	(183)	(136)
Loss on disposal of investments in subsidiaries, associates and joint ventures, other investments, intangible assets and property, plant and equipment	945	172
Bad debt written off	304	4
Net derivatives (gain)/loss	(874)	809
Unrealised foreign exchange (gain)/loss	(2,487)	6,713
Gain on bargain purchase	(33)	(335)
Interest income	(4,342)	(5,321)
Interest expenses	3,294	3,327
Operating profit before changes in working capital	75,092	88,294
Net increase in working capital	(7,788)	(1,838)
Cash generated from operations	67,304	86,456
Interest income from fund and other investments	3,636	3,399
Interest expenses paid	(2,505)	(2,473)
Taxation paid	(14,592)	(17,741)
Cash flows from operating activities	53,843	69,641

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Cumulative quarter ended	
	2016	31 December 2015
<i>In RM Mil</i>		
Acquisition of a subsidiary, net of cash acquired	(201)	-
Investment in associates and joint ventures	(952)	(4,046)
Investment in securities and other investments	(778)	(2,267)
Proceeds from disposal of:		
- investment in an associate, joint ventures and subsidiaries, net of cash disposed	367	3,246
- property, plant and equipment, investment properties, intangible assets, land held for development and assets classified as held for sale	1,149	627
- securities and other investments	8,659	4,646
Purchase of property, plant and equipment, investment properties, prepaid lease payments and intangible assets	(50,365)	(64,658)
Proceeds from capital reduction in joint ventures	171	-
Dividends received	1,107	1,234
Others	(37)	405
Cash flows from investing activities	(40,880)	(60,813)
Repayment of borrowings	(6,212)	(10,171)
Drawdown of borrowings	12,780	22,560
Dividends paid	(16,000)	(26,000)
Dividends paid to non-controlling interests	(5,856)	(7,250)
Payment to non-controlling interests on redemption of redeemable preference shares	(11)	(111)
Proceeds from shares issued to non-controlling interests	30	103
Payment to non-controlling interests on additional equity interest	-	(564)
Proceeds from partial disposal of equity interest to non-controlling interests	879	5,179
Cash flows from financing activities	(14,390)	(16,254)
Net decrease in cash and cash equivalents	(1,427)	(7,426)
Decrease/(increase) in deposits restricted	12	(207)
Net foreign exchange differences	2,185	10,927
Cash and cash equivalents at beginning of the year	120,021	116,727
Cash and cash equivalents at end of the year	120,791	120,021
Cash and cash equivalents		
Cash and bank balances and deposits	121,492	120,731
Bank overdrafts	(151)	(148)
Less: Deposits restricted	(550)	(562)
	120,791	120,021

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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 2016.

The explanatory notes attached to these unaudited condensed consolidated financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2015.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information presented herein has been prepared in accordance with the accounting policies to be used in preparing the annual consolidated financial statements for 31 December 2016 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2015 other than that disclosed in the first quarter report relating to adoption of Amendments to MFRSs effective for annual periods beginning on or after 1 January 2016.

3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

There was no qualified audit report issued by the auditors in the annual financial statements for the year ended 31 December 2015.

4. SEASONALITY OR CYCLICALITY OF OPERATIONS

The Group's operations, on overall, are not significantly affected by seasonal or cyclical fluctuations of the business/industry.

5. EXCEPTIONAL ITEMS

There was no exceptional item during the quarter under review.

6. DIVIDENDS

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

The Directors propose a tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM130,000 per ordinary share amounting to RM13 billion in respect of the financial year ended 31 December 2016 for shareholders' approval at the forthcoming Annual General Meeting.

The financial statements for the current financial year do not reflect this proposed final dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2017.

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

7. CHANGES IN COMPOSITION OF THE GROUP

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

8. FAIR VALUE INFORMATION

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

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

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

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

8. FAIR VALUE INFORMATION (continued)

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

31 December 2016

In RM Mil

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

31 December 2015

In RM Mil

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

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

9. OPERATING SEGMENTS

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

Performance is measured based on segment Profit After Tax (“PAT”), as included in the internal management reports. Segment PAT is used to measure performance as the Group chief operating decision maker, which in this case is the PETRONAS Executive Leadership Team, believes that such information is the most relevant in evaluating the results of the segments.

9.1 Revenue

	2016		2015		Individual quarter ended 31 December	
	2016	2015 Restated	2016	2015 Restated	2016	2015 Restated
<i>In RM Mil</i>						
		Third Parties		Inter-segment		Gross Total
Upstream	29,169	30,316	7,370	5,130	36,539	35,446
Downstream	25,729	25,401	1,114	862	26,843	26,263
Corporate and Others	3,703	4,381	1,289	1,650	4,992	6,031
Total	58,601	60,098	9,773	7,642	68,374	67,740

	2016		2015		Cumulative quarter ended 31 December	
	2016	2015 Restated	2016	2015 Restated	2016	2015 Restated
<i>In RM Mil</i>						
		Third Parties		Inter-segment		Gross Total
Upstream	99,001	121,922	23,987	23,798	122,988	145,720
Downstream	90,821	110,010	4,416	3,589	95,237	113,599
Corporate and Others	15,086	15,725	4,420	6,275	19,506	22,000
Total	204,908	247,657	32,823	33,662	237,731	281,319

9.2 Segment PAT

	Individual quarter ended 31 December		Cumulative quarter ended 31 December	
	2016	2015 Restated	2016	2015 Restated
<i>In RM Mil</i>				
Upstream	2,235	(12,527)	3,251	1,728
Downstream	2,865	1,422	8,292	8,352
Corporate and Others	4,839	7,127	6,549	7,558
Total PAT/(LAT)² for reportable segments	9,939	(3,978)	18,092	17,638
Elimination of inter-segment transactions	1,316	1,020	5,416	3,222
Consolidated PAT/(LAT)	11,255	(2,958)	23,508	20,860

² LAT: Loss After Tax

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PART B – OTHER EXPLANATORY NOTES

10. REVIEW OF GROUP PERFORMANCE

Cumulative quarter ended			Individual quarter ended		
31.12.2015	31.12.2016	In RM Mil	31.12.2016	30.9.2016	31.12.2015
247,657	204,908	Revenue	58,601	48,741	60,098
20,860	23,508	Profit/(Loss) for the period	11,255	6,070	(2,958)
75,455	70,413	EBITDA ³	21,908	15,151	19,177
<i>In RM Mil</i>				As at	As at
Total assets				31.12.2016	31.12.2015
				603,292	591,907
Shareholders' equity				380,286	374,876
Gearing ratio ⁴				17.4%	16.0%
ROACE ⁵				5.3%	5.1%

Fourth quarter PETRONAS Group recorded revenue of RM58.6 billion, a decrease of 2% compared to RM60.1 billion in the corresponding quarter last year. However, the Group reported profit of RM11.3 billion, compared with a loss of RM3.0 billion in the corresponding quarter last year.

The decrease in current quarter revenue was mainly driven by lower average realised product prices recorded for processed gas and LNG following the downward trend of JCC price and the impact of lower sales volume mainly from crude oil and condensate and petroleum products partially offset by the impact of higher sales volume mainly from processed gas and LNG.

The Group recorded profit of RM11.3 billion, an increase of more than 100% as compared to a loss of RM3.0 billion in the corresponding quarter last year mainly contributed by lower net impairment on assets coupled with lower net product and production costs partially offset by lower net foreign exchange gain following weakening of Ringgit against US Dollar. EBITDA for the quarter was RM21.9 billion, an increase of 14% as compared to the corresponding quarter last year in line with higher PBT.

Cumulative quarter PETRONAS Group recorded a 17% decrease in revenue for the year ended 31 December 2016 at RM204.9 billion compared to RM247.7 billion in 2015 mainly due to lower average realised product prices recorded across all products following the downward trend of key benchmark prices (Dated Brent and JCC) coupled with the impact of lower sales volume mainly from crude oil and condensate and petroleum products. This was partially offset by the effect of weakening of Ringgit against US Dollar.

The Group generated PBT of RM33.6 billion for the year ended 31 December 2016. PBT was lower by RM3.0 billion as compared to 2015 mainly contributed by lower realised product prices and sales volume partially offset by lower net product and production costs as well as lower net impairment on assets. However, PAT of RM23.5 billion for the year was higher mainly contributed by higher taxation recorded in 2015 following under provision of taxation in prior years. EBITDA for the year was RM70.4 billion, a decrease of 7% as compared to 2015 in line with lower PBT.

Total assets increased to RM603.3 billion as at 31 December 2016 as compared to RM591.9 billion as at 31 December 2015 primarily due to the impact of weakening of Ringgit against US Dollar exchange rate movement compared to 2015. Shareholders' equity of RM380.3 billion as at 31 December 2016 increased by RM5.4 billion compared to as at 31 December 2015 mainly due to impact of weakening of Ringgit against US Dollar exchange rate compared to 2015 and favourable movement on fair value of available-for-sale financial assets.

Gearing ratio increased to 17.4% as at 31 December 2016 compared to 16.0% as at 31 December 2015 due to higher borrowings following additional drawdown made during the year. ROACE increased to 5.3% as at 31 December 2016 compared to 5.1% as at 31 December 2015 in line with higher profit for the year.

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

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

⁵ Return on average capital employed (ROACE) is calculated as the profit before interest expense after tax divided by average total equity and long term debt during the year.

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PART B – OTHER EXPLANATORY NOTES (continued)

11. REVIEW OF PERFORMANCE – UPSTREAM

Cumulative quarter ended		<i>Financial Indicators</i>	31.12.2016	Individual quarter ended	
31.12.2015	31.12.2016			30.9.2016	31.12.2015
Restated		<i>In RM Mil</i>			Restated
		Revenue			
121,922	99,001	Third party	29,169	23,421	30,316
23,798	23,987	Inter-segment	7,370	5,680	5,130
145,720	122,988		36,539	29,101	35,446
1,728	3,251	PAT/(LAT)	2,235	2,426	(12,527)
Cumulative quarter ended		<i>Operational Indicators</i>	31.12.2016	Individual quarter ended	
31.12.2015	31.12.2016			30.9.2016	31.12.2015
		Production ⁶ ('000 boe ⁷ per day)			
937	939	Crude oil and condensate	944	874	934
1,353	1,424	Natural gas	1,500	1,353	1,392
2,290	2,363		2,444	2,227	2,326
		Oil and gas entitlement ⁸ ('000 boe per day)			
636	668	Crude oil and condensate	632	648	637
988	1,126	Natural gas	1,277	1,154	1,033
1,624	1,794		1,909	1,802	1,670
2,734	2,772	Malaysia average sales gas volume (mmscfd) ⁹	2,810	2,734	2,596
30.17	30.11	LNG sales volume (million tonnes)	8.62	7.12	8.06

Fourth quarter Revenue for the quarter was RM36.5 billion compared to RM35.4 billion in the corresponding quarter last year. The higher revenue was mainly contributed by higher natural gas and LNG sales volume coupled with higher realised prices of crude oil and gas. Profit after tax recorded for the quarter was RM2.2 billion compared to loss after tax of RM12.5 billion recorded in the corresponding quarter last year, mainly due to lower net impairment on assets and lower operating expenditures.

Total production volume for the quarter was 2,444 thousand boe per day compared to 2,326 thousand boe per day in the corresponding quarter last year mainly due to resumption of operations of the Sabah-Sarawak Gas Pipeline ("SSGP"), better facilities uptime in Malaysia, higher Peninsular Malaysia gas production to support shortfall in imported gas and higher gas production in Australia, partially offset by natural decline rate.

Total LNG sales volume for the quarter was higher as compared to the corresponding quarter in 2015 mainly due to higher volumes from Train 9 and Gladstone LNG ("GLNG"), partially offset by lower trading volume.

Malaysia average sales gas volume was higher compared to the corresponding quarter last year mainly due to higher demand.

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

⁷ boe: barrels of oil equivalent

⁸ Represents PETRONAS Group's entitlement to Malaysia's production and PETRONAS Group's international entitlement volume.

⁹ mmscfd: million standard cubic feet per day

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PART B – OTHER EXPLANATORY NOTES (continued)

11. REVIEW OF PERFORMANCE – UPSTREAM (continued)

Cumulative quarter Revenue for the year was RM123.0 billion compared to RM145.7 billion in 2015. The lower revenue reflects the lower realised prices for all products despite higher oil and gas entitlement volume in current year. Profit after tax of RM3.3 billion for the year was higher compared to RM1.7 billion recorded in 2015 mainly due to lower operating expenditures, lower net impairment on assets and lower taxation, despite lower revenue.

Total production volume for the year was 2,363 thousand boe per day compared to 2,290 thousand boe per day in 2015 mainly due to resumption of operations of the SSGP, higher facilities uptime in Malaysia and Canada, higher Peninsular Malaysia gas production to support shortfall in imported gas and higher production from Indonesia and Australia, partially offset by natural decline rate.

Total LNG sales volume for the year was marginally lower as compared to 2015 mainly due to lower trading volume, partially offset by higher volumes from Train 9 and GLNG.

Malaysia average sales gas volume was higher as compared to 2015 mainly due to higher demand.

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PART B – OTHER EXPLANATORY NOTES (continued)

12. REVIEW OF PERFORMANCE – DOWNSTREAM

Cumulative quarter ended		<i>Financial Indicators</i>	31.12.2016	Individual quarter ended	
31.12.2015	31.12.2016			30.9.2016	31.12.2015
Restated		<i>In RM Mil</i>			Restated
		Revenue			
110,010	90,821	Third party	25,729	21,860	25,401
3,589	4,416	Inter-segment	1,114	1,197	862
113,599	95,237		26,843	23,057	26,263
8,352	8,292	PAT	2,865	1,885	1,422
Cumulative quarter ended		<i>Operational Indicators</i>	31.12.2016	Individual quarter ended	
31.12.2015	31.12.2016			30.9.2016	31.12.2015
		Petroleum products sales			
282.6	268.1	volume (in million barrels)	64.8	65.7	68.3
		Crude oil sales volume (in			
213.9	189.3	million barrels)	43.2	43.0	52.3
		Petrochemicals sales volume (in			
6.4	7.3	million metric tonnes)	1.8	2.0	1.6

Fourth quarter Revenue for the quarter was RM26.8 billion, RM0.6 billion higher as compared to the corresponding quarter last year driven by higher crude oil prices.

Petroleum products sales volume was 64.8 million barrels, lower than the corresponding quarter last year by 3.5 million barrels due to lower marketing volumes especially in Africa. African volumes were impacted by lower production due to refinery maintenance activities as well as lower demand.

Crude oil sales volume was 43.2 million barrels, lower than the corresponding quarter last year by 9.1 million barrels due to lower marketing and trading volumes. Marketing volumes were lower because more domestic crude was supplied to our own domestic refineries.

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

Downstream PAT was RM2.9 billion, higher than the corresponding quarter last year by RM1.4 billion mainly due to higher international refining margins and better marketing margins.

Cumulative quarter Revenue for the year was RM95.2 billion, RM18.4 billion lower than last year mainly due to lower prices for crude, petroleum and petrochemical products as well as lower sales volume of crude and petroleum products.

Petroleum products sales volume was 268.1 million barrels, lower than 2015 by 14.5 million barrels due to overall reduction in marketing and trading activities.

Crude oil sales volume was 189.3 million barrels, lower than 2015 by 24.6 million barrels due to lower trading activities.

Petrochemical products sales volume was higher by 0.9 million metric tonnes compared to 2015 due to better plant performance leading to higher production.

Downstream cumulative PAT was RM8.3 billion, RM0.1 billion lower than 2015 mainly due to lower domestic refining margins and lower petrochemical product spreads.

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PART B – OTHER EXPLANATORY NOTES (continued)

13. REVIEW OF PERFORMANCE – CORPORATE AND OTHERS

Cumulative quarter ended		Financial Indicators	31.12.2016	Individual quarter ended	
31.12.2015	31.12.2016			30.9.2016	31.12.2015
Restated		In RM Mil		Restated	
		Revenue			
15,725	15,086	Third party	3,703	3,460	4,381
6,275	4,420	Inter-segment	1,289	1,115	1,650
22,000	19,506		4,992	4,575	6,031
7,558	6,549	PAT	4,839	322	7,127

Fourth quarter Revenue for the quarter was RM5.0 billion, lower by RM1.0 billion as compared to the corresponding quarter last year mainly due to lower income from sale of oil and gas equipment and lower shipping income. PAT stood at RM4.8 billion, lower by RM2.3 billion mainly due to lower net foreign exchange gain in the current quarter.

Cumulative quarter Revenue for the year was RM19.5 billion, lower by RM2.5 billion as compared to the same period in 2015 mainly due to lower income from sale of oil and gas equipment and lower fund investment income. PAT decreased by RM1.0 billion to RM6.5 billion as compared to RM7.6 billion last year due to lower revenue and lower net foreign exchange gain as compared to 2015.

14. COMPARISON WITH PRECEDING QUARTER'S RESULT

In RM Mil	Individual quarter ended	
	31.12.2016	30.9.2016
Revenue	58,601	48,741
Profit for the period	11,255	6,070
EBITDA	21,908	15,151

PETRONAS Group's revenue of RM58.6 billion for the quarter was higher by RM9.9 billion or 20% as compared to the preceding quarter. The increase was primarily due to higher average realised product prices for major products, impact of higher sales volume mainly from LNG and processed gas coupled with the impact of weakening of Ringgit against US Dollar.

Profit for the quarter increased by RM5.2 billion as compared to the preceding quarter primarily due to higher revenue and the impact of favourable foreign exchange rate movement. The increase in PAT was partially offset by higher taxation in line with higher PBT. EBITDA for the quarter was RM21.9 billion, an increase by 45% as compared to the preceding quarter in line with higher PBT.

15. NEXT FINANCIAL YEAR OUTLOOK

Despite modest recovery in oil price, the outlook remains uncertain. PETRONAS will continue to push for higher productivity and operational excellence.

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PART B – OTHER EXPLANATORY NOTES (continued)

16. TAXATION

<i>In RM Mil</i>	Individual quarter ended 31 December		Cumulative quarter ended 31 December	
	2016	2015	2016	2015
Current tax expenses				
Malaysia	4,557	6,194	11,831	17,871
Overseas	1,081	336	1,598	1,094
Deferred tax expenses				
Origination and reversal of temporary differences	(1,292)	(2,348)	(3,281)	(3,142)
	<u>4,346</u>	<u>4,182</u>	<u>10,148</u>	<u>15,823</u>

The Group's effective tax rate for the current quarter and for the year of 27.9% and 30.2% respectively were lower than the corresponding quarter and same period in 2015, mainly due to lower non-deductible expenses and higher non-assessable income respectively.

17. CASH, FUND AND OTHER INVESTMENTS

<i>In %</i>	As at 31.12.2016	As at 31.12.2015
By Currency		
RM	56.3	60.9
USD	39.0	35.1
Others	4.7	4.0
	<u>100.0</u>	<u>100.0</u>
By Maturity¹⁰		
< 1 year	96.1	97.5
1 to 5 years	2.2	1.7
5 to 10 years	1.7	0.8
	<u>100.0</u>	<u>100.0</u>
By Type		
Money market	92.2	94.4
Corporate bonds	3.0	2.9
Equities	4.8	2.7
	<u>100.0</u>	<u>100.0</u>

There was no material purchases and sales of quoted securities for the current quarter.

¹⁰ Refers to instrument maturity dates; excludes equities.

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PART B – OTHER EXPLANATORY NOTES (continued)

18. BORROWINGS

The details of the Group borrowings as at 31 December 2016 are as follows:

<i>In RM Mil</i>	<u>As at 31.12.2016</u>	<u>As at 31.12.2015</u>
Non-Current		
Secured		
Term loans	2,551	2,134
Islamic financing facilities	688	935
Total non-current secured borrowings	<u>3,239</u>	<u>3,069</u>
Unsecured		
Term loans	7,452	6,558
Notes and Bonds	36,755	35,167
Islamic financing facilities	10,213	9,145
Total non-current unsecured borrowings	<u>54,420</u>	<u>50,870</u>
Total non-current borrowings	<u>57,659</u>	<u>53,939</u>
Current		
Secured		
Term loans	263	203
Islamic financing facilities	308	611
Total current secured borrowings	<u>571</u>	<u>814</u>
Unsecured		
Term loans	5,440	1,142
Islamic financing facilities	447	257
Revolving credits	3,345	1,602
Bank overdrafts	151	148
Total current unsecured borrowings	<u>9,383</u>	<u>3,149</u>
Total current borrowings	<u>9,954</u>	<u>3,963</u>
Total borrowings	<u>67,613</u>	<u>57,902</u>

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PART B – OTHER EXPLANATORY NOTES (continued)

18. BORROWINGS (continued)

<i>In RM Mil</i>	As at		As at	
	31.12.2016	%	31.12.2015	%
By Currency				
USD	56,901	84.2	47,263	81.6
RM	6,943	10.3	6,404	11.1
EUR	2,080	3.1	2,068	3.6
GBP	1,220	1.8	1,587	2.7
Others	469	0.6	580	1.0
	67,613	100.0	57,902	100.0
By Repayment Schedule				
< 1 year	9,954	14.7	3,963	6.8
1 to 5 years	29,824	44.1	27,616	47.7
5 to 10 years	18,429	27.3	17,841	30.9
> 10 years	9,406	13.9	8,482	14.6
	67,613	100.0	57,902	100.0

19. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 31 December 2016.

20. MATERIAL LITIGATION

The legal suit brought against the Company by the Kelantan State Government in 2010 in respect of payment of petroleum proceeds under the terms of the agreement dated 9 May 1975 entered into between the Kelantan State Government and PETRONAS is still on-going as at the reporting date. PETRONAS has been advised by its solicitors that PETRONAS has a meritorious defence to the claim. The Company cannot estimate with sufficient reliability the ultimate financial obligation, if any, of this legal suit, since it has not gone for full trial yet.

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PART B – OTHER EXPLANATORY NOTES (continued)

21. PROFIT/(LOSS) FOR THE PERIOD/YEAR

<i>In RM Mil</i>	Individual quarter ended 31 December		Cumulative quarter ended 31 December	
	2016	2015	2016	2015
Included in profit for the period are the following charges:				
Bad debt written off	304	4	304	4
Depreciation and amortisation	6,990	7,451	25,309	24,258
Loss on disposal of:				
- associates and joint ventures	19	71	24	71
- property, plant and equipment	47	103	47	96
- other investments	-	3	-	3
- intangible assets	10	-	457	-
- investments in subsidiaries	-	2	417	2
Net impairment losses on:				
- receivables	1,881	1,367	1,810	1,611
- intangible assets	38	1,723	2,692	1,920
- property, plant and equipment	-	7,697	8,775	13,171
- investments in associates and joint ventures	8	737	-	1,307
- other investments	-	1,793	-	1,793
Net impairment/write-off on well costs	622	1,395	6,129	2,303
Net loss on derivatives	-	-	-	809
and credits:				
Dividend income	12	3	173	152
Gain on bargain purchase	33	335	33	335
Gain on disposal of:				
- property, plant and equipment	32	-	34	37
- other investments	30	22	32	35
- investments in associates and joint ventures	-	64	10	64
- investments in subsidiaries	73	-	107	-
Interest income	902	1,318	4,342	5,321
Net gain on derivatives	763	117	874	-
Net gain on foreign exchange	3,155	5,143	3,682	98
Net write back of impairment losses on:				
- investments in associates and joint ventures	-	-	411	-
- property, plant and equipment	200	-	-	-
- other investments	-	-	10	-

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PART B – OTHER EXPLANATORY NOTES (continued)

22. DIVIDENDS

As disclosed in Note 6.

23. EXCHANGE RATES

US dollar/RM	Individual quarter ended			Cumulative quarter ended		
	31.12.2016	30.9.2016	31.12.2015	31.12.2016	30.9.2016	31.12.2015
Average rate	4.3214	4.0510	4.2857	4.1459	4.0875	3.9032
Closing rate	4.4845	4.1465	4.2940	4.4845	4.1465	4.2940

By order of the Board

Ahmad Redza Abdul Wahab (MACS01577)
 Company Secretary
 Kuala Lumpur
 27 February 2017