



PETRONAS

PETRONAS Group Interim Financial Report

For First Quarter 2017

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INTERIM FINANCIAL REPORT

FOR FIRST QUARTER 2017



Key Financial and Operational Highlights	Quarter ended	
	31.3.2017	31.3.2016
Revenue (RM mil)	61,655	49,126
Profit Before Taxation (RM mil)	15,482	6,778
Profit After Tax (RM mil)	10,296	4,567
Identified items* (RM mil)	(177)	(3,822)
Profit After Tax excluding identified items (RM mil)	10,473	8,389
EBITDA (RM mil)	24,616	15,605
Cash flows from operating activities (RM mil)	18,040	9,751
Capital investments (RM mil)	11,928	11,253
Crude oil, condensate and natural gas entitlement volume ('000 boe per day)	1,850	1,815

*mainly comprise net impairment on assets

- PETRONAS Group's revenue for the first quarter of 2017 increased by 25%** compared to the corresponding quarter last year mainly due to the impact of higher average realised prices recorded across all products following the increase in key benchmark prices (Dated Brent and JCC), weakening of Ringgit against US Dollar and higher processed gas sales volume. The increase in revenue was partially offset by the impact of lower crude oil & condensate and petroleum product sales volume.
- The Group recorded Profit Before Taxation ("PBT") of RM15.5 billion and Profit After Tax ("PAT") of RM10.3 billion for the current quarter, an increase of more than 100% respectively** compared to the corresponding quarter last year, primarily due to higher revenue recorded for the quarter and lower net impairment on assets and well costs partially offset by higher tax expense, amortisation of Oil and Gas Properties ("OGP") and net product & production costs. **Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") increased by 58%** compared to the corresponding quarter last year in line with higher PBT.
- Cash flows from operating activities increased by 85%** as compared to the corresponding quarter last year due to higher average realised prices and lower tax paid.
- Capital investments** in the first quarter of 2017 totaled **RM11.9 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 2017 was 1,850 thousand boe per day** compared to 1,815 thousand boe per day in the corresponding quarter last year. The increase was in line with higher gas production. Total production volume in the first quarter of 2017 was 2,387 thousand boe per day compared to 2,452 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 2017 which should be read in conjunction with the Explanatory Notes on pages 7 to 18.

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

<i>In RM Mil</i>	2017	Quarter ended 31 March 2016
Revenue	61,655	49,126
Cost of revenue	(40,080)	(37,810)
Gross profit	21,575	11,316
Selling and distribution expenses	(1,534)	(1,363)
Administration expenses	(2,947)	(2,050)
Net impairment losses ¹	(213)	(924)
Other expenses	(1,533)	(857)
Other income	790	1,227
Operating profit	16,138	7,349
Financing costs	(857)	(785)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	201	214
Profit before taxation	15,482	6,778
Tax expense	(5,186)	(2,211)
PROFIT FOR THE PERIOD	10,296	4,567
Other comprehensive (expenses)/income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Net movements from exchange differences	(1,452)	(15,181)
Available-for-sale financial assets		
- Changes in fair value	(524)	707
- Transfer to profit or loss	(43)	-
Others	122	(19)
Total other comprehensive expenses for the period	(1,897)	(14,493)
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE PERIOD	8,399	(9,926)
Profit attributable to:		
Shareholders of the Company	8,205	2,674
Non-controlling interests	2,091	1,893
PROFIT FOR THE PERIOD	10,296	4,567
Total comprehensive income/(expenses) attributable to:		
Shareholders of the Company	6,622	(10,172)
Non-controlling interests	1,777	246
TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE PERIOD	8,399	(9,926)

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31.3.2017	As at 31.12.2016
<i>In RM Mil</i>		
ASSETS		
Property, plant and equipment	332,871	333,977
Investment properties, land held for development and prepaid lease payments	14,418	14,530
Investments in associates and joint ventures	14,114	14,030
Intangible assets	24,317	25,552
Fund and other investments	802	786
Other non-current assets	23,558	23,335
TOTAL NON-CURRENT ASSETS	410,080	412,210
Trade and other inventories	13,124	13,764
Trade and other receivables	44,054	45,990
Fund and other investments	7,950	9,477
Cash and cash equivalents	126,569	121,492
Other current assets	316	359
TOTAL CURRENT ASSETS	192,013	191,082
TOTAL ASSETS	602,093	603,292
EQUITY		
Share capital	100	100
Reserves	386,778	380,186
Total equity attributable to shareholders of the Company	386,878	380,286
Non-controlling interests	43,195	43,262
TOTAL EQUITY	430,073	423,548
LIABILITIES		
Borrowings	57,364	57,659
Deferred tax liabilities	9,476	9,635
Other long term liabilities and provisions	38,191	37,918
TOTAL NON-CURRENT LIABILITIES	105,031	105,212
Trade and other payables	53,057	62,445
Borrowings	10,022	9,954
Taxation	3,910	2,133
TOTAL CURRENT LIABILITIES	66,989	74,532
TOTAL LIABILITIES	172,020	179,744
TOTAL EQUITY AND LIABILITIES	602,093	603,292

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Attributable to shareholders of the Company</i>			
	<i>Non-distributable</i>		<i>Foreign</i>	<i>Available-</i>
<i>In RM Mil</i>	Share Capital	Capital Reserves	Currency Translation Reserve	for-sale Reserve
Quarter ended 31 March 2016				
Balance at 1 January 2016	100	13,904	41,293	695
Net movements from exchange differences	-	-	(13,546)	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	708
Other comprehensive expenses	-	(8)	-	-
Total other comprehensive (expenses)/income for the period	-	(8)	(13,546)	708
Profit for the period	-	-	-	-
Total comprehensive (expenses)/income for the period	-	(8)	(13,546)	708
Additional issuance of shares to non-controlling interests	-	-	-	-
Redemption of redeemable preference shares in a subsidiary	-	-	-	-
Dividends	-	-	-	-
Total transactions with shareholders	-	-	-	-
Balance at 31 March 2016	100	13,896	27,747	1,403
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 income	-	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	-	-	-	-
Redemption of redeemable preference shares in a subsidiary	-	4	-	-
Changes in ownership interest in a subsidiary	-	(12)	25	-
Dividends	-	-	-	-
Total transactions with shareholders	-	(8)	25	-
Balance at 31 March 2017	100	14,097	42,124	2,226

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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		
Quarter ended 31 March 2016					
Balance at 1 January 2016	12,000	306,884	374,876	40,776	415,652
Net movements from exchange differences	-	-	(13,546)	(1,635)	(15,181)
Available-for-sale financial assets:					
- Changes in fair value	-	-	708	(1)	707
Other comprehensive expenses	-	-	(8)	(11)	(19)
Total other comprehensive (expenses)/income for the period	-	-	(12,846)	(1,647)	(14,493)
Profit for the period	-	2,674	2,674	1,893	4,567
Total comprehensive (expenses)/income for the period	-	2,674	(10,172)	246	(9,926)
Additional issuance of shares to non-controlling interests	-	-	-	13	13
Redemption of redeemable preference shares in a subsidiary	-	-	-	(11)	(11)
Dividends	-	-	-	(1,955)	(1,955)
Total transactions with shareholders	-	-	-	(1,953)	(1,953)
Balance at 31 March 2016	12,000	309,558	364,704	39,069	403,773
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 income	-	-	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
Redemption of redeemable preference shares in a subsidiary	-	(4)	-	-	-
Changes in ownership interest in a subsidiary	-	(43)	(30)	425	395
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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In RM Mil</i>	2017	Quarter ended 31 March 2016
Cash flows from operating activities		
Profit before taxation	15,482	6,778
Adjustments for:		
Depreciation and amortisation	8,720	5,726
Net impairment loss on property, plant and equipment	11	1,652
Net impairment loss on intangible assets	-	2,718
Net impairment/write-off on well costs	623	1,456
Net impairment loss/(write back) on receivables	202	(53)
Net impairment write back on investment in an associate	-	(665)
Net impairment write back on other investments	-	(10)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	(201)	(214)
Property, plant and equipment written off	8	-
Gain on disposal of other investments and property, plant and equipment	(89)	(2)
Loss on disposal of intangible assets	7	-
Net loss/(gain) on derivatives	32	(4)
Unrealised loss/(gain) on foreign exchange	1,581	(698)
Interest income	(1,010)	(1,240)
Interest expenses	857	785
Operating profit before changes in working capital	<u>26,223</u>	16,229
Net change in working capital	<u>(5,832)</u>	(3,559)
Cash generated from operations	20,391	12,670
Interest income from fund and other investments	594	690
Interest expenses paid	(702)	(624)
Taxation paid	<u>(2,243)</u>	(2,985)
Net cash generated from operating activities	<u>18,040</u>	<u>9,751</u>

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In RM Mil</i>	2017	Quarter ended 31 March 2016
Cash flows from investing activities		
Investment in associates and joint ventures	(165)	(77)
Investment in securities and other investments	(440)	(230)
Proceeds from disposal of:		
- investment in an associate	-	4
- property, plant and equipment, prepaid lease payments, investment properties, intangible assets, land held for development and assets classified as held for sale	196	136
- securities and other investments	1,397	1,533
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	(11,928)	(11,253)
Dividends received	101	57
Others	-	(342)
Net cash used in investing activities	(10,827)	(10,172)
Cash flows from financing activities		
Repayment of borrowings	(1,404)	(1,143)
Drawdown of borrowings	1,945	1,386
Dividends paid to non-controlling interests	(2,274)	(1,700)
Proceeds from shares issued to non-controlling interests	5	13
Payment to non-controlling interests on redemption of redeemable preference shares	-	(11)
Proceeds from partial disposal of equity interest to non-controlling interests	82	-
Net cash used in financing activities	(1,646)	(1,455)
Net increase/(decrease) in cash and cash equivalents	5,567	(1,876)
(Increase)/decrease in deposits restricted	(75)	310
Net foreign exchange differences	(435)	(2,987)
Cash and cash equivalents at beginning of the period	120,791	120,021
Cash and cash equivalents at end of the period	125,848	115,468
Cash and cash equivalents		
Cash and bank balances and deposits	126,569	115,807
Bank overdrafts	(96)	(87)
Less: Deposits restricted	(625)	(252)
	125,848	115,468

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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 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information presented herein has been prepared in accordance with the accounting policies to be used in preparing the annual consolidated financial statements for 31 December 2017 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2016 except as disclosed below.

At the beginning of the current financial year, the Group and the Company adopted the following Amendments to MFRS ("pronouncements") that have been issued by the MASB and are applicable as listed below:

Effective for annual periods beginning on or after 1 January 2017

Amendments to MFRS 12 Disclosure of Interests in Other Entities (Annual Improvements 2014-2016 Cycle)

Amendments to MFRS 107 Statement of Cash Flows: Disclosure Initiative

Amendments to MFRS 112 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of these pronouncements did not have a significant impact on the Group's reported income and net assets.

3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

There was no qualified audit report issued by the auditors in the annual financial statements for the year ended 31 December 2016.

4. SEASONALITY OR CYCLICALITY OF OPERATIONS

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

5. EXCEPTIONAL ITEMS

There was no exceptional item during the quarter under review.

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

6. DIVIDENDS

On 27th April 2017, the shareholders have approved 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, which is payable in eight instalments between April and November 2017. The interim financial report for the quarter does not reflect this dividend. The dividend will be accounted for in equity as an appropriation of retained profits in the interim financial report for the second quarter ending 30 June 2017.

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 March 2017

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	5,052	25	5,077
Quoted securities	37	266	303
Malaysian Government Securities	-	47	47
Corporate Private Debt Securities	-	2,621	2,621
Commodity swaps	-	41	41
Forward foreign exchange contracts	-	79	79
Forward gas contracts	144	-	144
	<u>5,233</u>	<u>3,079</u>	<u>8,312</u>
Financial liabilities			
Interest rate swaps	-	(3)	(3)
Forward foreign exchange contracts	-	(97)	(97)
Forward gas contracts	(169)	-	(169)
	<u>(169)</u>	<u>(100)</u>	<u>(269)</u>

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 oil price contracts	(536)	-	(536)
	<u>(536)</u>	<u>(276)</u>	<u>(812)</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

	2017		2016		Quarter ended 31 March	
	2017	2016 Restated Third Parties	2017	2016 Restated Inter-segment	2017	2016 Restated Gross Total
<i>In RM Mil</i>						
Upstream	30,473	24,472	9,250	4,798	39,723	29,270
Downstream	26,981	20,531	1,101	1,055	28,082	21,586
Corporate and Others	4,201	4,123	993	1,148	5,194	5,271
Total	61,655	49,126	11,344	7,001	72,999	56,127

9.2 Segment PAT

	Quarter ended 31 March	
	2017	2016 Restated
<i>In RM Mil</i>		
Upstream	6,313	2,299
Downstream	2,857	1,284
Corporate and Others	747	363
Total PAT for reportable segments	9,917	3,946
Elimination of inter-segment transactions	379	621
Consolidated PAT	10,296	4,567

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PART B – OTHER EXPLANATORY NOTES

10. REVIEW OF GROUP PERFORMANCE

<i>In RM Mil</i>	Quarter ended		
	31.3.2017	31.12.2016	31.3.2016
Revenue	61,655	58,601	49,126
Profit for the period	10,296	11,255	4,567
EBITDA ²	24,616	21,908	15,605

<i>In RM Mil</i>	As at	As at
	31.3.2017	31.12.2016
Total assets	602,093	603,292
Shareholders' equity	386,878	380,286
Gearing ratio ³	17.1%	17.4%
ROACE ⁴	6.6%	5.3%

PETRONAS Group recorded revenue of RM61.6 billion in the first quarter of 2017, an increase of 25% compared to RM49.1 billion in the corresponding quarter last year. Similarly, profit for the quarter increased to RM10.3 billion from RM4.6 billion recorded in the corresponding quarter last year.

The increase in current quarter revenue was primarily driven by the impact of higher average realised prices recorded across all products following the increase in key benchmark prices (Dated Brent and JCC), weakening of Ringgit against US Dollar and higher processed gas sales volume. The increase in revenue was partially offset by the impact of lower crude oil & condensate and petroleum product sales volume.

The Group recorded a higher profit of RM10.3 billion, an increase of more than 100% as compared to the corresponding quarter last year primarily due to higher revenue recorded for the quarter, lower net impairment on assets and well costs partially offset by higher tax expense, amortisation of OGP arising from the change in oil and gas reserves estimates for the purpose of amortisation computation for producing OGP, from proved and probable (2P) equity reserves to proved (1P) entitlement reserves and net product & production costs. EBITDA for the quarter was RM24.6 billion, an increase of 58% as compared to the corresponding quarter last year in line with higher PBT.

Total assets decreased to RM602.1 billion as at 31 March 2017 as compared to RM603.3 billion as at 31 December 2016 primarily due to the impact of strengthening of Ringgit against US Dollar exchange rate. Shareholders' equity of RM386.9 billion as at 31 March 2017 increased by RM6.6 billion compared to 31 December 2016 contributed by profit generated during the period.

Gearing ratio decreased to 17.1% as at 31 March 2017 compared to 17.4% as at 31 December 2016 primarily contributed by higher equity following profit generated during the period. ROACE increased to 6.6% as at 31 March 2017 compared to 5.3% as at 31 December 2016 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)

11. REVIEW OF PERFORMANCE – UPSTREAM

Financial Indicators

In RM Mil

	31.3.2017	31.12.2016	Quarter ended 31.3.2016 Restated
Revenue			
Third party	30,473	29,169	24,472
Inter-segment	9,250	7,370	4,798
	39,723	36,539	29,270
PAT	6,313	2,235	2,299

Operational Indicators

	31.3.2017	31.12.2016	Quarter ended 31.3.2016
Production ⁵ ('000 boe ⁶ per day)			
Crude oil and condensate	898	944	1,010
Natural gas	1,489	1,500	1,442
	2,387	2,444	2,452
Oil and gas entitlement ⁷ ('000 boe per day)			
Crude oil and condensate	615	632	722
Natural gas	1,235	1,277	1,093
	1,850	1,909	1,815
Malaysia average sales gas volume (mmscfd) ⁸	2,745	2,810	2,722
LNG sales volume (million tonnes)	7.50	8.62	7.35

Revenue for the quarter was RM39.7 billion compared to RM29.3 billion in the corresponding quarter last year. Higher revenue was mainly contributed by higher prices for all products. PAT increased to RM6.3 billion compared to RM2.3 billion in the corresponding quarter last year, mainly due to higher revenue as explained above coupled with lower net impairment on assets, partially offset by higher amortisation of oil and gas properties following the change in estimates of the Group's oil and gas reserves base for the purposes of amortisation computation from proved and probable (2P) equity reserves to proved (1P) entitlement reserves.

Total production volume for the quarter was 2,387 thousand boe per day compared to 2,452 thousand boe per day in the corresponding quarter last year mainly due to lower Iraq production entitlement, lower demand in Turkmenistan and higher decline rate in JDA and Egypt, partially offset by resumption of operation of Sabah-Sarawak Gas Pipeline.

Total LNG sales volume for the quarter was marginally higher by 0.15 million tonnes as compared to the corresponding quarter in 2016 mainly attributable to higher volume from Gladstone LNG and Train 9. Malaysia average sales gas volume increased by 23 mmscfd compared to the corresponding quarter last year mainly due to higher demand in East Malaysia.

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)

12. REVIEW OF PERFORMANCE – DOWNSTREAM

Financial Indicators

In RM Mil

	31.3.2017	31.12.2016	Quarter ended 31.3.2016 Restated
Revenue			
Third party	26,981	25,729	20,531
Inter-segment	1,101	1,114	1,055
	28,082	26,843	21,586
PAT	2,857	2,865	1,284

Operational Indicators

	31.3.2017	31.12.2016	Quarter ended 31.3.2016
Petroleum products sales volume (in million barrels)	63.1	64.8	69.0
Crude oil sales volume (in million barrels)	35.2	43.2	55.3
Petrochemicals sales volume (in million metric tonnes)	2.0	1.8	1.7

Total revenue for the quarter was RM28.1 billion, an increase of RM6.5 billion when compared to corresponding quarter last year. The increase in the current quarter revenue was driven by higher overall prices for crude oil, petroleum and petrochemical products.

Downstream PAT of RM2.9 billion was higher than the corresponding quarter last year by RM1.6 billion mainly due to higher prices and better margins.

Petroleum products and crude sales volumes were lower in the current quarter by 5.9 million barrels and 20.1 million barrels respectively mainly due to lower both marketing and trading volumes following strategy rationalisation towards value focused activities.

Petrochemical products sales volume increased by 0.3 million metric tonnes compared to the corresponding quarter last year in line with higher production.

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PART B – OTHER EXPLANATORY NOTES (continued)

13. REVIEW OF PERFORMANCE – CORPORATE AND OTHERS

Financial Indicators

In RM Mil

	31.3.2017	31.12.2016	Quarter ended 31.3.2016 Restated
Revenue			
Third party	4,201	3,703	4,123
Inter-segment	993	1,289	1,148
	<u>5,194</u>	<u>4,992</u>	<u>5,271</u>
PAT	747	4,839	363

Revenue for the quarter was RM5.2 billion, lower by RM0.1 billion or 1% as compared to the corresponding quarter last year mainly due to lower income from sale of oil and gas equipment and fund investment income partially offset by higher shipping income. PAT increased by RM0.4 billion to RM0.7 billion mainly due to higher shipping income and lower net foreign exchange loss.

14. COMPARISON WITH PRECEDING QUARTER'S RESULT

In RM Mil	31.3.2017	Quarter ended 31.12.2016
Revenue	61,655	58,601
Profit for the period	10,296	11,255
EBITDA	24,616	21,908

PETRONAS Group's revenue of RM61.6 billion for the quarter was higher by RM3.0 billion or 5% as compared to the preceding quarter. The increase was primarily due to the impact of higher average realised prices for major products and weakening of Ringgit against US Dollar partially offset by the impact of lower sales volume primarily from crude oil & condensate and LNG.

Profit for the quarter decreased by RM1.0 billion or 8% as compared to the preceding quarter primarily due to higher net foreign exchange loss and amortisation of oil and gas properties. The decrease in PAT was partially offset by higher revenue and lower net impairment on assets and well costs in the current quarter. EBITDA for the quarter was RM24.6 billion, an increase by RM2.7 billion or 12% as compared to the preceding quarter.

15. CURRENT FINANCIAL YEAR PROSPECTS

The outlook of oil price remains uncertain despite the recovery seen early this year. Continuous group-wide efforts to improve operational efficiency has yielded satisfactory results and the Board expects the overall year end performance of PETRONAS Group to be fair.

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PART B – OTHER EXPLANATORY NOTES (continued)

16. TAXATION

<i>In RM Mil</i>	2017	Quarter ended 31 March 2016
Current tax expenses		
Malaysia	4,127	2,794
Overseas	265	144
Deferred tax expenses		
Origination and reversal of temporary differences	794	(727)
	5,186	2,211

The Group's effective tax rate for the current quarter of 33.5% was higher than the corresponding quarter of 32.6%, mainly due to lower non-assessable income in 2017.

17. CASH, FUND AND OTHER INVESTMENTS

<i>In %</i>	As at 31.3.2017	As at 31.12.2016
By Currency		
RM	57.2	56.3
USD	38.8	39.0
Others	4.0	4.7
	100.0	100.0
By Maturity⁹		
< 1 year	96.8	96.1
1 to 5 years	1.8	2.2
5 to 10 years	1.4	1.7
	100.0	100.0
By Type		
Money market	93.5	92.2
Corporate bonds	2.2	3.0
Equities	4.3	4.8
	100.0	100.0

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)

18. BORROWINGS

The details of the Group borrowings as at 31 March 2017 are as follows:

<i>In RM Mil</i>	As at 31.3.2017	As at 31.12.2016
Non-Current		
Secured		
Term loans	2,459	2,551
Islamic financing facilities	2,209	688
Total non-current secured borrowings	4,668	3,239
Unsecured		
Term loans	8,141	7,452
Notes and Bonds	36,266	36,755
Islamic financing facilities	8,289	10,213
Total non-current unsecured borrowings	52,696	54,420
Total non-current borrowings	57,364	57,659
Current		
Secured		
Term loans	257	263
Islamic financing facilities	984	308
Total current secured borrowings	1,241	571
Unsecured		
Term loans	5,473	5,440
Islamic financing facilities	157	447
Revolving credits	3,055	3,345
Bank overdrafts	96	151
Total current unsecured borrowings	8,781	9,383
Total current borrowings	10,022	9,954
Total borrowings	67,386	67,613

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FOR FIRST QUARTER 2017



PART B – OTHER EXPLANATORY NOTES (continued)

18. BORROWINGS (continued)

<i>In RM Mil</i>	As at		As at	
	31.3.2017	%	31.12.2016	%
By Currency				
USD	56,766	84.2	56,901	84.2
RM	6,981	10.4	6,943	10.3
EUR	2,104	3.1	2,080	3.1
GBP	1,097	1.7	1,220	1.8
Others	438	0.6	469	0.6
	67,386	100.0	67,613	100.0
By Repayment Schedule				
< 1 year	10,022	14.9	9,954	14.7
1 to 5 years	33,318	49.4	29,824	44.1
5 to 10 years	15,304	22.7	18,429	27.3
> 10 years	8,742	13.0	9,406	13.9
	67,386	100.0	67,613	100.0

19. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 31 March 2017.

20. MATERIAL LITIGATION

The legal suit brought against the Company by the Kelantan State Government in 2010 in respect of payment of petroleum proceeds under the terms of the agreement dated 9 May 1975 entered into between the Kelantan State Government and PETRONAS is still on-going as at the reporting date. PETRONAS has been advised by its solicitors that PETRONAS has a meritorious defence to the claim.

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FOR FIRST QUARTER 2017



PART B – OTHER EXPLANATORY NOTES (continued)

21. PROFIT FOR THE PERIOD

<i>In RM Mil</i>	2017	Quarter ended 31 March 2016
Included in profit for the period are the following charges:		
Depreciation and amortisation	8,720	5,726
Net impairment losses on:		
- receivables	202	-
- intangible assets	-	2,718
- property, plant and equipment	11	1,652
Loss on disposal of intangible assets	7	-
Net impairment/write-off on well costs ¹⁰	623	1,456
Net loss on derivatives	32	-
Net loss on foreign exchange	1,281	515
Property, plant and equipment written off	8	-
and credits:		
Dividend income	28	8
Gain on disposal of:		
- other investments	53	2
- property, plant and equipment	36	-
Interest income	1,010	1,240
Net gain on derivatives	-	4
Net write back of impairment losses on:		
- investment in an associate	-	665
- receivables	-	53
- other investments	-	10

22. DIVIDENDS

As disclosed in Note 6.

23. EXCHANGE RATES

	31.3.2017	31.12.2016	Quarter ended 31.3.2016
US dollar/RM			
Average rate	4.4472	4.3214	4.2029
Closing rate	4.4240	4.4845	3.9330

By order of the Board

Abdul Rahman Musa (LS0009706)
Company Secretary
Kuala Lumpur
24 May 2017

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