



PETRONAS Group Interim Financial Report

For Third Quarter 2020

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2020

The Board of Directors of Petroliam Nasional Berhad ("PETRONAS" or the "Company") hereby announce the following unaudited condensed consolidated financial statements of PETRONAS Group for the third quarter ended 30 September 2020 which should be read in conjunction with the accompanying explanatory notes on pages 7 to 21.

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

In RM Mil	Individual quarter ended		Cumulative quarter ended	
	2020	30 September 2019	2020	30 September 2019
Revenue	41,070	55,109	134,699	176,227
Cost of revenue	(30,585)	(38,300)	(98,763)	(112,056)
Gross profit	10,485	16,809	35,936	64,171
Selling and distribution expenses	(1,739)	(1,786)	(5,669)	(5,406)
Administration expenses	(1,993)	(3,254)	(7,250)	(9,430)
Net impairment loss and write-off ¹	(5,710)	(2,551)	(32,125)	(2,288)
Other expenses	(657)	(270)	(3,610)	(503)
Other income	707	841	2,633	2,666
Operating profit/(loss)	1,093	9,789	(10,085)	49,210
Financing costs	(1,183)	(675)	(2,729)	(2,495)
Share of profit/(loss) after tax and non-controlling interests of equity accounted associates and joint ventures	280	(95)	333	417
Profit/(Loss) before taxation	190	9,019	(12,481)	47,132
Tax expense	(3,563)	(1,597)	(7,411)	(10,770)
(LOSS)/PROFIT FOR THE PERIOD	(3,373)	7,422	(19,892)	36,362
Other comprehensive (expenses)/income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Net changes in fair value of equity investments at fair value through other comprehensive income ("OCI")	73	-	2	(1)
<i>Items that may be reclassified subsequently to profit or loss</i>				
Net movements from exchange differences	(1,003)	1,116	4,843	2,370
Others	(151)	(280)	(1,008)	(362)
Total other comprehensive (expenses)/income for the period	(1,081)	836	3,837	2,007
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE PERIOD	(4,454)	8,258	(16,055)	38,369
(Loss)/Profit attributable to:				
Shareholders of the Company	(4,164)	5,878	(21,843)	30,812
Non-controlling interests	791	1,544	1,951	5,550
(LOSS)/PROFIT FOR THE PERIOD	(3,373)	7,422	(19,892)	36,362
Total comprehensive (expenses)/income attributable to:				
Shareholders of the Company	(4,236)	6,618	(17,850)	32,742
Non-controlling interests	(218)	1,640	1,795	5,627
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE PERIOD	(4,454)	8,258	(16,055)	38,369

¹ Includes certain amount relating to loss on remeasurement of finance lease receivables

The unaudited condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>In RM Mil</i>	As at 30.9.2020	As at 31.12.2019
ASSETS		
Property, plant and equipment	295,498	319,204
Investment properties and land held for development	13,628	11,708
Investments in associates and joint ventures	14,260	15,902
Intangible assets	23,605	26,260
Fund and other investments	1,992	1,929
Other non-current assets	40,787	40,956
TOTAL NON-CURRENT ASSETS	389,770	415,959
Trade and other inventories	13,551	14,447
Trade and other receivables	40,353	41,285
Fund and other investments	9,627	8,710
Cash and cash equivalents	141,433	141,622
Other current assets	33	398
TOTAL CURRENT ASSETS	204,997	206,462
TOTAL ASSETS	594,767	622,421
EQUITY		
Share capital	100	100
Reserves	337,146	388,996
Total equity attributable to shareholders of the Company	337,246	389,096
Non-controlling interests	48,353	49,819
TOTAL EQUITY	385,599	438,915
LIABILITIES		
Borrowings	78,747	53,422
Deferred tax liabilities	9,562	12,598
Other long term liabilities and provisions	49,183	44,486
TOTAL NON-CURRENT LIABILITIES	137,492	110,506
Trade and other payables	44,466	53,968
Borrowings	11,364	15,316
Taxation	7,846	3,716
Dividend payable	8,000	-
TOTAL CURRENT LIABILITIES	71,676	73,000
TOTAL LIABILITIES	209,168	183,506
TOTAL EQUITY AND LIABILITIES	594,767	622,421

The unaudited condensed consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company			
	Share Capital	Capital and Other Reserves	Foreign Currency Translation Reserve	Fair Value through OCI Reserve
<i>In RM Mil</i>				
Cumulative quarter ended 30 September 2019				
At 1 January 2019	100	14,191	31,245	(75)
Net changes of equity investments at fair value through OCI:				
- Changes in fair value	-	-	-	(1)
Net movements from exchange differences	-	(4)	2,355	-
Others	-	(420)	-	-
Total other comprehensive (expenses)/income for the period, net of tax	-	(424)	2,355	(1)
Profit for the period	-	-	-	-
Total comprehensive (expenses)/income for the period	-	(424)	2,355	(1)
Changes in ownership interest in subsidiaries	-	-	(116)	-
Disposal of subsidiaries	-	-	(260)	-
Redemption of redeemable preference shares in subsidiaries	-	355	-	-
Dividends	-	-	-	-
Total transactions with shareholders	-	355	(376)	-
Balance at 30 September 2019	100	14,122	33,224	(76)
Cumulative quarter ended 30 September 2020				
Balance at 1 January 2020	100	14,509	30,014	(78)
Net changes of equity investments at fair value through OCI:				
- Changes in fair value	-	-	-	2
Net movements from exchange differences	-	-	4,960	-
Others	-	(969)	-	-
Total other comprehensive (expenses)/income for the period, net of tax	-	(969)	4,960	2
(Loss)/Profit for the period	-	-	-	-
Total comprehensive (expenses)/income for the period	-	(969)	4,960	2
Changes in ownership interest in subsidiaries	-	-	-	-
Acquisition of a subsidiary	-	-	-	-
Redemption of redeemable preference shares in subsidiaries	-	120	-	-
Dividends	-	-	-	-
Total transactions with shareholders	-	120	-	-
Balance at 30 September 2020	100	13,660	34,974	(76)

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

<i>In RM Mil</i>	<i>Attributable to shareholders of the Company</i>			<i>Non- controlling Interests</i>	<i>Total Equity</i>
	<i>Distributable</i>				
	<i>General Reserve</i>	<i>Retained Profits</i>	<i>Total</i>		
Cumulative quarter ended 30 September 2019					
At 1 January 2019	12,000	322,197	379,658	44,716	424,374
Net changes of equity investments at fair value through OCI:					
- Changes in fair value	-	-	(1)	-	(1)
Net movements from exchange differences	-	-	2,351	19	2,370
Others	-	-	(420)	58	(362)
Total other comprehensive (expenses)/income for the period, net of tax	-	-	1,930	77	2,007
Profit for the period	-	30,812	30,812	5,550	36,362
Total comprehensive (expenses)/income for the period	-	30,812	32,742	5,627	38,369
Changes in ownership interest in subsidiaries	-	68	(48)	266	218
Disposal of subsidiaries	-	-	(260)	-	(260)
Redemption of redeemable preference shares in subsidiaries	-	(355)	-	(73)	(73)
Dividends	-	(24,000)	(24,000)	(4,114)	(28,114)
Total transactions with shareholders	-	(24,287)	(24,308)	(3,921)	(28,229)
Balance at 30 September 2019	12,000	328,722	388,092	46,422	434,514
Cumulative quarter ended 30 September 2020					
Balance at 1 January 2020	12,000	332,551	389,096	49,819	438,915
Net changes of equity investments at fair value through OCI:					
- Changes in fair value	-	-	2	-	2
Net movements from exchange differences	-	-	4,960	(117)	4,843
Others	-	-	(969)	(39)	(1,008)
Total other comprehensive (expenses)/income for the period, net of tax	-	-	3,993	(156)	3,837
(Loss)/Profit for the period	-	(21,843)	(21,843)	1,951	(19,892)
Total comprehensive (expenses)/income for the period	-	(21,843)	(17,850)	1,795	(16,055)
Changes in ownership interest in subsidiaries	-	-	-	20	20
Acquisition of a subsidiary	-	-	-	656	656
Redemption of redeemable preference shares in subsidiaries	-	(120)	-	-	-
Dividends	-	(34,000)	(34,000)	(3,937)	(37,937)
Total transactions with shareholders	-	(34,120)	(34,000)	(3,261)	(37,261)
Balance at 30 September 2020	12,000	276,588	337,246	48,353	385,599

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In RM Mil</i>	Cumulative quarter ended	
	2020	30 September 2019
Cash flows from operating activities		
(Loss)/Profit before taxation	(12,481)	47,132
Adjustments for:		
Bad debts written off	37	3
Depreciation and amortisation	26,282	26,929
Financing costs	2,729	2,495
Gain on bargain purchase	(261)	-
Interest income	(3,920)	(5,405)
Net change in contract liabilities	(131)	(84)
Net change in provisions	(41)	(45)
Net (gain)/ loss on derivatives	(13)	89
Net impairment loss/(write-back) on:		
- property, plant and equipment	27,298	2,448
- intangible assets	3,836	10
- loan and advances to a joint venture	48	-
- receivables	(35)	(390)
- investment in an associate	-	230
Net impairment/write-off on well costs	604	732
Net inventories written down to net realisable value	116	109
Net gain on disposal of investment in subsidiaries, other investments and property, plant and equipment	(104)	(301)
Property, plant and equipment written off	6	5
Selling profit on recognition of finance lease receivables	(32)	-
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	(333)	(417)
Unrealised loss/ (gain) on foreign exchange	465	(155)
Write off of trade receivables and loss on remeasurement of finance lease receivables	935	-
Operating profit before changes in working capital	45,005	73,385
Net changes in working capital	(8,239)	2,531
Cash generated from operations	36,766	75,916
Interest income from fund and other investments	3,920	4,315
Interest expenses paid	(2,245)	(1,821)
Taxation paid, net of refund	(5,826)	(13,848)
Net cash generated from operating activities	32,615	64,562

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In RM Mil</i>	Cumulative quarter ended	
	2020	30 September 2019
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(178)	(1,890)
Dividends received	751	1,118
Investment in associates and joint ventures	(78)	(116)
Investment in securities and other investments	(2,274)	(4,358)
Long term receivables to a joint venture	(613)	(2,483)
Proceeds from disposal/partial disposal of:		
- investment in subsidiaries, net of cash disposed	64	281
- property, plant and equipment	580	235
- securities and other investments	1,116	1,674
Purchase of property, plant and equipment, investment properties, intangible assets and land held for development	(22,207)	(26,995)
Proceeds from redemption of preference shares in a joint venture	511	-
Net cash used in investing activities	(22,328)	(32,534)
Cash flows from financing activities		
Dividends paid	(26,000)	(40,000)
Dividends paid to non-controlling interests	(3,937)	(4,114)
Drawdown of borrowings	36,850	6,732
Payment of lease liabilities	(3,253)	(1,371)
Payment to non-controlling interests on redemption of redeemable preference shares	-	(73)
Proceeds from partial disposal of equity interest to non-controlling interests	20	218
Repayment of borrowings	(14,875)	(19,710)
Net cash used in financing activities	(11,195)	(58,318)
Net decrease in cash and cash equivalents	(908)	(26,290)
Decrease in cash and cash equivalents restricted	(101)	(490)
Net foreign exchange differences	465	474
Cash and cash equivalents at beginning of the year	139,851	172,458
Cash and cash equivalents at end of the period	139,307	146,152
Cash and cash equivalents		
Cash and bank balances and deposits	141,433	147,345
Bank overdrafts	(663)	(40)
Less: Cash and cash equivalents restricted	(1,463)	(1,153)
	139,307	146,152

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PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

1. BASIS OF PREPARATION

The condensed consolidated financial statements are unaudited and have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*. They should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 December 2019.

The explanatory notes attached to these 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 2019.

Within the context of these condensed consolidated financial statements, the Group comprises the Company, its subsidiaries and joint operations, as well as the Group's interest in joint ventures and associates as at and for the period ended 30 September 2020.

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 2020 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2019 except as disclosed below.

As of 1 January 2020, the Group has adopted the following Amendments to MFRSs (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board ("MASB") which are effective for annual periods beginning on or after 1 January 2020.

Amendments to MFRS 3 *Business Combinations (Definition of a Business)*

Amendments to MFRS 9 *Financial Instruments*, MFRS 139 *Financial Instruments: Recognition and*

Measurement and MFRS 7 *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

Amendments to MFRS 101 *Presentation of Financial Statements (Definition of Material)*

Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors (Definition of Material)*

The Group has also early adopted the Amendment to MFRS 16 *Leases (COVID-19 Related Rent Concessions)* issued by MASB in June 2020, in response to the COVID-19 pandemic. The amendment is effective for annual periods beginning on or after 1 June 2020.

The adoption of these pronouncements did not have any significant impact on the Group's consolidated financial statements.

3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The audited financial statements of the Group for the year ended 31 December 2019 were not subjected to any audit qualification.

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 period under review.

6. MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates of the amounts reported in the most recent annual financial statements of the Group for the year ended 31 December 2019 that may have material effect in the results of the period under review.

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

7. DEBT AND EQUITY SECURITIES

There were no material issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the period under review, other than as disclosed in note 9 and note 23.

8. DIVIDENDS PAID

During the period under review, the Company paid:

- i. a final dividend of RM240,000 per ordinary share amounting to RM24 billion in respect of financial year ended 31 December 2019 to shareholders in instalments between April and August 2020.
- ii. a dividend of RM2 billion, being instalment of the dividend of RM100,000 per ordinary share amounting to RM10 billion in respect of financial year ending 31 December 2020 to shareholders in September 2020. The remaining amount of the dividend amounting to RM8 billion will be paid in instalments between October and November 2020.

9. SIGNIFICANT AND SUBSEQUENT EVENTS

- i. The Refining and Petrochemical facilities at the PETRONAS' Pengerang Integrated Complex ("PIC") have commenced start-up and proceeded with Performance Test Runs ("PTR") beginning September 2019 post the Atmospheric Residue Desulphurisation ("ARDS") incident in April 2019. However, following the Diesel Hydro Treating ("DHT") unit fire incident on 15 March 2020, the Refining and Petrochemical operation was temporarily stopped. PIC is now on track in transitioning to commercial operations, with the focus on operational readiness to achieve safe, reliable and efficient operation post the fire incident. The restart-up of the PIC is currently planned for Q1 FY2021.
- ii. The State of Sabah has gazetted the coming into force of the Sabah State Sales Tax on crude oil, condensates, natural gas and liquified natural gas at the rate of 5% effective 1 April 2020. The Group is currently working together with the state government in finalising this matter.
- iii. On 8 April 2020, the Arbitral Tribunal announced its decision on the arbitration proceedings initiated by Gumusut-Kakap Semi Floating Production System (L) Limited ("GKL"), an indirect partly-owned subsidiary of PETRONAS, against Sabah Shell Petroleum Company Limited ("SSPC"). The outcome of the decision has resulted in an unfavourable impact to the Group. GKL is advised that it has legal grounds to challenge the Award and on 7 July 2020, GKL filed certain court applications, claiming for, among others, that parts of the Arbitral Award dated 8 April 2020 to be set aside ("Setting Aside"). Hearing of the Setting Aside application is expected within Q1 FY2021.

Following the above, a write off of trade receivables and loss on re-measurement of finance lease receivables amounting to RM935 million and provision for litigation claims of RM1,049 million have been recognised in the Group's interim financial report.

- iv. On 15 April 2020, PETRONAS successfully priced a US\$6 billion multi-tranche senior bond offering, comprising US\$2.25 billion 10-year, US\$2.75 billion 30-year and US\$1 billion 40-year conventional notes. The issuance represents PETRONAS' return to the international US dollar bond markets since its US\$5 billion multi-tranche offering in March 2015 and is part of the on-going prudent capital management efforts which also effectively extend its debt maturity profile. The proceeds will be used by PETRONAS, or its subsidiaries and associated companies, for refinancing, capital expenditures, working capital and general corporate purposes.

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FOR THIRD QUARTER 2020

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

9. SIGNIFICANT AND SUBSEQUENT EVENTS (continued)

- v. In 2019, the State of Sarawak brought a legal suit against PETRONAS in the Kuching High Court, alleging that PETRONAS failed to make payments of RM1,345 million for the state sales tax ("SST") imposed on petroleum products including interests and penalties under the Sarawak Sales Tax Ordinance 1998 (as amended in 2018). In response, PETRONAS had filed a judicial review to challenge the jurisdiction of the State of Sarawak over the imposition of sales tax for petroleum products. At the same time, PETRONAS filed a defence against the civil suit and a stay of proceedings of the civil suit pending the disposal of the judicial review and determination of certain points of law to the Federal Court. Notwithstanding its legal position, in order to achieve mutual benefit to PETRONAS and State of Sarawak and to create a stable environment for investment in Sarawak, PETRONAS is at the final stages of achieving a holistic commercial resolution with Sarawak State on the SST and other demands raised by Sarawak State.

On 3 August 2020, PETRONAS withdrew its appeal against decision at the High Court of Kuching in relation to the judicial review. On 6 August 2020, Sarawak State also withdrew the civil suit against PETRONAS. PETRONAS and the affected subsidiaries have accordingly submitted their respective SST returns. On 15 September 2020, PETRONAS paid RM2,957 million to the state, being the final and full settlement for the financial year 2019.

- vi. On 15 June 2020, PETRONAS via its wholly-owned subsidiary, KLCC Holdings Sdn. Bhd. ("KLCCCH"), fulfilled all the conditions of the Third Supplemental Joint Venture Agreement signed with QD Asia Pacific Ltd. for the subscription of additional 18.75% equity interests in Cititower Sdn. Bhd. ("CTSB"). With the completion of the transaction, KLCCCH now holds 68.75% in CTSB which has become a partially owned subsidiary of KLCCCH. The principal activity of CTSB is property investment.

The net profit contributed by this subsidiary from the date of acquisition is not material in relation to the consolidated net profit of the Group for the period.

- vii. PETRONAS and its subsidiary ("PETRONAS Group") on 22 June 2020 have received notices of additional assessments arising from the tax audits conducted by the Inland Revenue Board ("IRB") for petroleum activities in the previous years. PETRONAS Group has accordingly initiated legal proceedings. On 10 August 2020, the High Court granted the Group an interim stay against the IRB for the imposition of additional tax assessments. Due to Conditional Movement Control Order ("CMCO"), the High Court has extended the interim stay orders to 3 December 2020 and 11 January 2021 respectively. Notwithstanding the above, parties are currently negotiating for an amicable solution.

10. CHANGES IN COMPOSITION OF THE GROUP

There were no material changes in the composition of the Group for the period under review.

11. 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.

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

11. FAIR VALUE INFORMATION (continued)

30 September 2020

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	954	6	960
Quoted securities	129	-	129
Malaysian Government Securities	-	473	473
Corporate Bonds and Sukuk	-	8,104	8,104
Commodity swaps	-	7	7
Forward foreign exchange contracts	-	72	72
Forward gas contracts	288	106	394
Forward oil/gas price swaps	5	-	5
	<u>1,376</u>	<u>8,768</u>	<u>10,144</u>
Financial liabilities			
Commodity swaps	-	(74)	(74)
Forward foreign exchange contracts	-	(136)	(136)
Forward gas contracts	(380)	(8)	(388)
Forward oil/gas price swaps	(443)	-	(443)
Interest rate swaps	-	(631)	(631)
	<u>(823)</u>	<u>(849)</u>	<u>(1,672)</u>

31 December 2019

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	780	35	815
Quoted securities	135	-	135
Malaysian Government Securities	-	610	610
Corporate Bonds and Sukuk	-	7,198	7,198
Commodity swaps	-	2	2
Forward foreign exchange contracts	-	58	58
Forward gas contracts	427	158	585
Forward oil/gas price swaps	142	-	142
Interest rate swaps	-	2	2
	<u>1,484</u>	<u>8,063</u>	<u>9,547</u>
Financial liabilities			
Commodity swaps	-	(27)	(27)
Forward foreign exchange contracts	-	(74)	(74)
Forward gas contracts	(352)	(7)	(359)
Forward oil/gas price swaps	(14)	-	(14)
Interest rate swaps	-	(160)	(160)
	<u>(366)</u>	<u>(268)</u>	<u>(634)</u>

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

12. OPERATING SEGMENTS

The Group's reportable operating segments comprise Upstream, Gas and New Energy and Downstream. Each reportable segment offers different products and services and are managed separately as described in the Group's audited consolidated financial statements for the year ended 31 December 2019.

For each of the reportable segment, the Group chief operating decision maker, which in this case is the PETRONAS Executive Leadership Team ("ELT"), reviews internal management reports at least on a quarterly basis.

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 PETRONAS ELT believes that such information is the most relevant in evaluating the results of the segments.

12.1 Segment revenue

	2020		2019		Individual quarter ended 30 September	
	2020	2019	2020	2019	2020	2019
<i>In RM Mil</i>						
		Third Parties		Inter-segment		Gross Total
Upstream	7,610	6,795	10,247	17,119	17,857	23,914
Gas and New Energy	10,139	17,234	1,697	1,694	11,836	18,928
Downstream	20,583	28,067	169	366	20,752	28,433
Corporate and Others	2,738	3,013	1,190	1,183	3,928	4,196
Total	41,070	55,109	13,303	20,362	54,373	75,471

	2020		2019		Cumulative quarter ended 30 September	
	2020	2019	2020	2019	2020	2019
<i>In RM Mil</i>						
		Third Parties		Inter-segment		Gross Total
Upstream	21,583	26,836	32,362	49,179	53,945	76,015
Gas and New Energy	41,732	55,963	5,972	6,257	47,704	62,220
Downstream	62,559	83,501	624	979	63,183	84,480
Corporate and Others	8,825	9,927	3,456	3,437	12,281	13,364
Total	134,699	176,227	42,414	59,852	177,113	236,079

12.2 Segment PAT/(LAT)²

	Individual quarter ended 30 September		Cumulative quarter ended 30 September	
	2020	2019	2020	2019
<i>In RM Mil</i>				
Upstream	(62)	4,287	(11,878)	17,156
Gas and New Energy	(4,735)	2,904	(10,989)	10,164
Downstream	947	1,899	(467)	4,785
Corporate and Others	735	539	1,845	4,958
Total (LAT)/PAT for reportable segments	(3,115)	9,629	(21,489)	37,063
Elimination of inter-segment transactions	(258)	(2,207)	1,597	(701)
Consolidated (LAT)/PAT	(3,373)	7,422	(19,892)	36,362

² Loss After Tax

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

13. REVENUE

The following table includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

	Upstream		Gas and New Energy		Downstream		Corporate and Others		Individual quarter ended 30 September	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	<i>In RM Mil</i>									
Revenue from contract customers	7,269	6,297	10,078	16,868	20,528	28,054	912	1,318	38,787	52,537
Other revenue	341	498	61	366	55	13	1,826	1,695	2,283	2,572
Total	7,610	6,795	10,139	17,234	20,583	28,067	2,738	3,013	41,070	55,109

	Upstream		Gas and New Energy		Downstream		Corporate and Others		Cumulative quarter ended 30 September	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	<i>In RM Mil</i>									
Revenue from contract customers	20,482	25,073	40,970	54,457	62,276	83,094	3,138	3,913	126,866	166,537
Other revenue	1,101	1,763	762	1,506	283	407	5,687	6,014	7,833	9,690
Total	21,583	26,836	41,732	55,963	62,559	83,501	8,825	9,927	134,699	176,227

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PART B – OTHER EXPLANATORY NOTES

14. REVIEW OF GROUP PERFORMANCE

Cumulative quarter ended		In RM Mil	Individual quarter ended		
30.9.2019	30.9.2020		30.9.2020	30.6.2020	30.9.2019
176,227	134,699	Revenue	41,070	34,036	55,109
73,525	43,435	EBITDA ³	14,015	9,125	18,795
36,362	(19,892)	PAT/(LAT)	(3,373)	(21,039)	7,422
<i>In RM Mil</i>				As at	As at
Cash flows from operating activities				30.9.2020	30.9.2019
Capital investments				32,615	64,562
				22,463	26,995
<i>In RM Mil</i>				As at	As at
Total assets				30.9.2020	31.12.2019
Shareholders' equity				594,767	622,421
Gearing ratio ⁴				337,246	389,096
ROACE ⁵				25.3%	19.4%
				(3.0%)	8.7%

Third quarter PETRONAS Group's revenue of RM41.1 billion for the third quarter of 2020 was lower by 25% as compared to the third quarter of 2019 mainly driven by the impact of lower average realised prices for major products in line with the declining benchmark prices.

The Group recorded EBITDA of RM14.0 billion, lower by RM4.8 billion in line with lower revenue partially offset by lower costs.

LAT was RM3.4 billion as compared to the PAT of RM7.4 billion for the third quarter of 2019 primarily due to lower EBITDA, higher impairment loss on assets and tax expenses attributed to derecognition of deferred tax assets, primarily as a result of lower oil and gas prices outlook. Excluding impairment loss⁶, the Group would record a PAT of RM2.6 billion, lower by RM7.6 billion as compared to PAT excluding impairment loss for the third quarter of 2019.

Cumulative quarter PETRONAS Group's revenue of RM134.7 billion for the period ended 30 September 2020, lower by 24% as compared to the same period in 2019 due to the impact of lower benchmark prices for all products on the back of lower sales volume mainly for processed gas, LNG and petroleum products. The impact was cushioned by favourable exchange rate impact towards strengthening of USD against RM.

The Group recorded EBITDA at RM43.4 billion was lower by 41% in line with lower revenue partially offset by lower costs.

LAT was RM19.9 billion as compared to the PAT of RM36.4 billion for the same period in 2019 mainly due to lower EBITDA and higher impairment loss on assets as a result of lower oil and gas prices outlook. Excluding impairment loss, the Group would record a PAT of RM10.3 billion, lower by RM29.0 billion as compared to PAT excluding impairment loss for the same period in 2019.

Cash flows from operating activities decreased by 50% in line with lower profit generated, partially offset by lower taxes paid. Capital investments amounted to RM22.5 billion, mainly attributed to Upstream projects.

Total assets decreased to RM594.8 billion as at 30 September 2020 as compared to RM622.4 billion as at 31 December 2019 mainly contributed by impairment loss on assets during the period. Shareholders' equity of RM337.2 billion decreased by RM51.9 billion mainly attributable to loss recorded during the period and dividends declared to shareholders amounting to RM34.0 billion.

Gearing ratio increased to 25.3% as at 30 September 2020 from 19.4% as at 31 December 2019 mainly due to the reduction in equity associated with loss for the period ended 30 September 2020 and issuance of new bond in April 2020 of US\$6 billion. ROACE stood at negative 3.0% as at 30 September 2020 from 8.7% as at 31 December 2019 in line with loss during the period.

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 the exclusion of financing costs and 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.

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PART B – OTHER EXPLANATORY NOTES (continued)

15. REVIEW OF PERFORMANCE – UPSTREAM

Cumulative quarter ended		<i>Financial Indicators</i> <i>In RM Mil</i>	Individual quarter ended		
30.9.2019	30.9.2020		30.9.2020	30.6.2020	30.9.2019
26,836	21,583	Revenue			
49,179	32,362	Third party	7,610	4,278	6,795
76,015	53,945	Inter-segment	10,247	7,335	17,119
17,156	(11,878)	PAT/(LAT)	17,857	11,613	23,914
			(62)	(13,741)	4,287
Cumulative quarter ended		<i>Operational Indicators</i>	Individual quarter ended		
30.9.2019	30.9.2020		30.9.2020	30.6.2020	30.9.2019
907	853	Production ⁷ ('000 boe ⁸ per day)			
1,421	1,337	Crude oil and condensates	815	783	843
2,328	2,190	Natural gas	1,246	1,264	1,307
			2,061	2,047	2,150
		Entitlement ⁹ ('000 boe per day)			
562	587	Crude oil and condensates	579	571	539
1,109	1,028	Natural gas	988	865	963
1,671	1,615		1,567	1,436	1,502

Third quarter Revenue for the third quarter of 2020 was RM17.9 billion, lower by 25% as compared to the third quarter of 2019 mainly due to the impact of lower average realised prices for liquids and gas.

LAT was RM0.1 billion as compared to PAT of RM4.3 billion in the third quarter of 2019 primarily due to lower revenue recorded and higher impairment loss on assets. This was partially offset by lower operating expenses, tax expense and cash payments.

Total production volume was 2,061 thousand boe per day, lower by 5% mainly driven by the lower demand following global COVID-19 pandemic partially offset by higher liquid production from Brazil.

Cumulative quarter Revenue for the period ended 30 September 2020 was RM53.9 billion, lower by 29% as compared to the same period in 2019 mainly due to the impact of lower average realised prices for liquids and gas.

LAT was RM11.9 billion as compared to PAT of RM17.2 billion for the same period in 2019 primarily due to lower revenue recorded and higher impairment loss on assets. This was partially offset by lower tax expense, operating expenses and cash payments.

Total production volume was 2,190 thousand boe per day as compared to 2,328 thousand boe per day for the same period in 2019 mainly due to lower demand as mentioned above.

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

⁶ Includes write-off of exploration expenditure under intangible assets and loss on remeasurement of finance lease receivables.

⁷ Represents Malaysia's production (PETRONAS Group and other Operators) and PETRONAS Group's international equity production volume.

⁸ boe: barrels of oil equivalent

⁹ Represents PETRONAS Group's sales entitlement to Malaysia's production and PETRONAS Group's international sales entitlement volume.

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PART B – OTHER EXPLANATORY NOTES (continued)

16. REVIEW OF PERFORMANCE – GAS AND NEW ENERGY

Cumulative quarter ended		<i>Financial Indicators</i> <i>In RM Mil</i>	30.9.2020	Individual quarter ended	
30.9.2019	30.9.2020			30.6.2020	30.9.2019
55,963	41,732	Revenue	10,139	11,605	17,234
6,257	5,972	Third party	1,697	1,767	1,694
62,220	47,704	Inter-segment	11,836	13,372	18,928
10,164	(10,989)	PAT/(LAT)	(4,735)	(9,162)	2,904

Cumulative quarter ended		<i>Operational Indicators</i>	30.9.2020	Individual quarter ended	
30.9.2019	30.9.2020			30.6.2020	30.9.2019
2,881	2,488	Malaysia average sales gas volume (mmscfd) ¹⁰	2,612	2,284	2,789
24.64	24.28	Gross LNG sales volume (million tonnes) ¹¹	7.58	6.71	7.48

Third quarter Revenue for the third quarter of 2020 was RM11.8 billion, lower by 37% as compared to the same quarter in 2019 mainly due to the impact of lower average realised prices and sales gas volume but cushioned by higher LNG sales volume.

LAT was RM4.7 billion as compared to PAT of RM2.9 billion in the third quarter of 2019 primarily driven by lower revenue, higher tax expense attributable to derecognition of deferred tax assets and impairment loss on assets. The above was partially offset by lower product costs.

Malaysia average sales gas volume was lower by 177 mmscfd attributed by lower offtake from power sector in Peninsular Malaysia following movement restrictions in the wake of COVID-19 pandemic.

Gross LNG sales volume however was slightly higher by 0.10 million tonnes largely due to higher production volume by PETRONAS LNG Complex ("PLC").

Cumulative quarter Revenue was RM47.7 billion, lower by 23% as compared to the same period in 2019 due to the impact of lower average realised prices and sales volume.

LAT was RM11.0 billion as compared to PAT of RM10.2 billion for the same period in 2019 in tandem with lower revenue, higher impairment loss on assets and tax expense as mentioned above. This was partially offset by lower product costs.

Malaysia average sales gas volume was lower by 393 mmscfd driven by lower offtake from power sector in Peninsular Malaysia following movement restrictions in the wake of COVID-19 pandemic.

Gross LNG sales volume reduced by 0.36 million tonnes mainly attributed to lower volume produced by PLC partially softened by higher trading activities.

¹⁰ mmscfd: million standard cubic feet per day

¹¹ Gross volume refers to all LNG sales inclusive of volume subsequently sold as sales gas

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PART B – OTHER EXPLANATORY NOTES (continued)

17. REVIEW OF PERFORMANCE – DOWNSTREAM

Cumulative quarter ended		<i>Financial Indicators</i> <i>In RM Mil</i>	30.9.2020	Individual quarter ended	
30.9.2019	30.9.2020			30.6.2020	30.9.2019
83,501	62,559	Revenue			
979	624	Third party	20,583	15,263	28,067
84,480	63,183	Inter-segment	169	183	366
4,785	(467)	PAT/(LAT)	20,752	15,446	28,433
			947	(249)	1,899

Cumulative quarter ended		<i>Operational Indicators</i>	30.9.2020	Individual quarter ended	
30.9.2019	30.9.2020			30.6.2020	30.9.2019
192.1	194.0	Petroleum products sales volume (in million barrels)	62.9	57.9	64.6
91.1	101.8	Crude oil sales volume (in million barrels)	36.3	34.0	24.6
6.2	6.1	Petrochemical products sales volume (in million metric tonnes)	2.0	2.1	2.0

Third quarter Revenue for the third quarter of 2020 was RM20.8 billion, lower by 27% as compared to the same quarter in 2019 mainly due to the impact of lower average realised prices for petroleum products, crude oil and petrochemical products as well as lower sales volume for petroleum products.

Lower PAT by RM1.0 billion was in line with lower gross profit.

Petroleum products sales volume was 62.9 million barrels, lower by 1.7 million barrels due to lower demand following movement restrictions in the wake of COVID-19 pandemic.

Crude oil sales volume was 36.3 million barrels, rose by 11.7 million barrels mainly due to higher crude oil marketing volume.

Petrochemical products sales volume was comparable at 2.0 million metric tonnes.

Cumulative quarter Revenue for the period ended 30 September 2020 was RM63.2 billion, lower by 25% as compared to the same period in 2019 mainly due to the impact of lower average realised prices for petroleum products, crude oil and petrochemical products.

LAT was RM0.5 billion mainly impacted by inventory loss, compressed refining and petrochemical products margins as well as lower petroleum product marketing sales volume.

Petroleum products sales volume was 194.0 million barrels, improved by 1.9 million barrels following higher trading activities, partially offset by lower marketing volume attributed to the COVID-19 pandemic.

Crude oil sales volume was 101.8 million barrels, higher by 10.7 million barrels mainly due to increased crude oil marketing activities, partially offset by limited trading opportunities.

Petrochemical products sales volume was 6.1 million metric tonnes, lower by 0.1 million metric tonnes mainly due to softer demand despite higher production.

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PART B – OTHER EXPLANATORY NOTES (continued)

18. REVIEW OF PERFORMANCE – CORPORATE AND OTHERS

Cumulative quarter ended		Financial Indicators <i>In RM Mil</i>	30.9.2020	Individual quarter ended	
30.9.2019	30.9.2020			30.6.2020	30.9.2019
		Revenue			
9,927	8,825	Third party	2,738	2,890	3,013
3,437	3,456	Inter-segment	1,190	1,182	1,183
13,364	12,281		3,928	4,072	4,196
4,958	1,845	PAT	735	1,091	539

Third quarter Revenue for the third quarter of 2020 was RM3.9 billion, lower by 6% as compared to the third quarter in 2019 mainly contributed by fund investment income as a result of lower rate of return in tandem with lower Overnight Policy Rate ("OPR").

PAT however was RM0.7 billion, higher by 36% mainly due to lower operating expenses despite lower revenue.

Cumulative quarter Revenue for the period ended 30 September 2020 was RM12.3 billion, decreased by 8% as compared to the same period in 2019 mainly contributed by fund investment income, as above mentioned.

PAT was RM1.8 billion, lower due to higher impairment loss recognised and provision for litigation claims arising from unfavourable arbitration result as mentioned in note 9 (iii).

19. COMPARISON WITH PRECEDING QUARTER'S RESULTS

<i>In RM Mil</i>	Individual quarter ended	
	30.9.2020	30.6.2020
Revenue	41,070	34,036
EBITDA	14,015	9,125
LAT	(3,373)	(21,039)

PETRONAS Group revenue surged by 21% in the third quarter of 2020 at RM41.1 billion as compared to the preceding quarter mainly attributable to the impact of improved benchmark price for major products on the back of higher sales volume mainly from petroleum products, LNG and processed gas.

EBITDA was RM14.0 billion, higher in line with the increase in revenue.

LAT reduced by RM17.7 billion mainly contributed by higher EBITDA and lower impairment loss on assets for the quarter. Excluding impairment loss, the Group would record a PAT of RM2.6 billion for the period under review as compared to LAT of RM0.9 billion for the preceding quarter.

20. CURRENT FINANCIAL YEAR PROSPECTS

Prolonged low oil price and moderate demand recovery impacted by the COVID-19 pandemic continue to pose challenges to the industry. Despite these challenges, PETRONAS will remain focused in maintaining portfolio resilience, upholding disciplined capital and operational spending as well as preserving liquidity to ensure business sustainability. The Board expects the performance of PETRONAS Group in the final quarter of 2020 to be continuously affected by the challenging business environment.

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PART B – OTHER EXPLANATORY NOTES (continued)

21. TAXATION

<i>In RM Mil</i>	Individual quarter ended 30 September		Cumulative quarter ended 30 September	
	2020	2019	2020	2019
Current tax expenses				
Malaysia	2,219	2,607	9,572	12,317
Overseas	170	296	513	1,140
Deferred tax expenses				
Origination and reversal of temporary differences	1,174	(1,306)	(2,674)	(2,687)
	3,563	1,597	7,411	10,770

A reconciliation of income tax expense applicable to (loss)/profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group is as follows:

<i>In RM Mil</i>		Cumulative quarter ended 30 September			
		%	2020	%	2019
(Loss)/Profit before taxation			(12,481)		47,132
Taxation at Malaysian statutory tax rate	24	(2,995)	24	11,312	
Effect of different tax rates in foreign & other tax jurisdictions	(7)	930	-	374	
Non deductible expenses	(14)	1,740	3	1,234	
Tax exempt income	8	(1,046)	(4)	(1,548)	
Tax incentives	7	(901)	3	(1,200)	
Effect of deferred tax benefits not recognised	(63)	7,899	-	38	
Foreign exchange translation difference	-	48	-	(5)	
	(45)	5,675	27	10,205	
Under provision in prior years	14	1,736	1	565	
Tax expense	59	7,411	28	10,770	

22. CASH, FUND AND OTHER INVESTMENTS

<i>In %</i>	As at 30.9.2020	As at 31.12.2019
By Currency		
RM	60.2	72.7
USD	38.0	24.6
Others	1.8	2.7
	100.0	100.0
By Maturity¹²		
< 1 year	93.4	94.0
1 to 5 years	2.9	2.7
5 to 10 years	3.7	3.3
	100.0	100.0
By Type		
Money market	93.2	93.8
Corporate bonds	5.7	5.2
Equities	1.1	1.0
	100.0	100.0

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

¹² Refers to instrument maturity dates; excludes equities.

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PART B – OTHER EXPLANATORY NOTES (continued)

23. BORROWINGS

The details of the Group borrowings as at 30 September 2020 are as follows:

<i>In RM Mil</i>	As at 30.9.2020	As at 31.12.2019
Non-Current		
Term loans	16,425	14,561
Lease liabilities	11,893	12,603
Notes and Bonds	46,448	21,371
Islamic financing facilities	3,981	4,887
Total non-current borrowings	78,747	53,422
Current		
Term loans	4,558	5,750
Lease liabilities	1,260	1,063
Islamic financing facilities	1,675	6,298
Revolving credits	1,833	1,347
Bankers' acceptances	1,375	449
Bank overdrafts	663	409
Total current borrowings	11,364	15,316
Total borrowings	90,111	68,738

<i>In RM Mil</i>	As at 30.9.2020		As at 31.12.2019	
		%		%
By Currency				
USD	71,992	79.9	50,384	73.3
RM	10,629	11.8	12,689	18.5
EUR	2,416	2.7	1,997	2.9
ZAR	1,962	2.2	1,530	2.2
CAD	1,712	1.9	803	1.2
INR	1,142	1.3	747	1.1
GBP	38	0.0	344	0.5
Others	220	0.2	244	0.3
	90,111	100.0	68,738	100.0
By Repayment Schedule				
< 1 year	11,364	12.6	15,316	22.3
1 to 5 years	23,585	26.2	26,370	38.3
5 to 10 years	16,019	17.8	14,154	20.6
> 10 years	39,143	43.4	12,898	18.8
	90,111	100.0	68,738	100.0

24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the period ended 30 September 2020.

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PART B – OTHER EXPLANATORY NOTES (continued)

25. (LOSS)/PROFIT FOR THE PERIOD

<i>In RM Mil</i>	Individual quarter ended 30 September		Cumulative quarter ended 30 September	
	2020	2019	2020	2019
Included in (loss)/profit for the period are the following charges:				
Bad debt written off	6	-	37	3
Depreciation and amortisation	8,579	8,660	26,282	26,929
Loss on disposal of:				
- property, plant and equipment	3	5	6	50
- investment in subsidiaries	-	29	-	-
Net impairment loss on:				
- property, plant and equipment	5,527	2,400	27,298	2,448
- receivables	4	-	-	-
- loan and advances to a joint venture	-	-	48	-
- investment in an associate	-	230	-	230
- intangible assets	168	10	3,836	10
Net impairment/write-off on well costs ¹³	365	284	604	732
Net inventories written down to net realisable value	117	111	116	109
Net loss on:				
- derivatives	112	39	-	89
- foreign exchange	521	-	378	-
Property, plant and equipment written off	6	3	6	5
Write-off of trade receivables and loss on remeasurement of finance lease receivables	-	-	935	-
and credits:				
Dividend income	40	223	72	383
Gain on bargain purchase	-	-	261	-
Gain on disposal of:				
- property, plant and equipment	116	9	169	55
- other investments	-	-	-	19
- subsidiaries	-	-	171	177
- a joint venture	-	100	-	100
Interest income	1,216	1,723	3,920	5,405
Net change in contract liabilities	43	28	131	84
Net gain on:				
- derivatives	-	-	13	-
- foreign exchange	-	114	-	217
Net write-back of impairment loss on:				
- receivables	-	79	35	390
- loan and advances to a joint venture	1	-	-	-

26. DIVIDENDS

As disclosed in note 8.

¹³ Comprises impairment, impairment write-back and write-off of exploration expenditure under intangible assets.

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PART B – OTHER EXPLANATORY NOTES (continued)

27. EXCHANGE RATES

US dollar/RM	Individual quarter ended			Cumulative quarter ended		
	30.9.2020	30.6.2020	30.9.2019	30.9.2020	30.9.2019	31.12.2019
Average rate	4.2033	4.3233	4.1657	4.2354	4.1348	4.1423
Closing rate	4.1575	4.2850	4.1870	4.1575	4.1870	4.0995

By order of the Board

Intan Shafinas (Tuty) Hussain (LS0009774)
 Company Secretary
 Kuala Lumpur
 26 November 2020