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PETROLIAM NASIONAL BERHAD (PETRONAS) ANNUAL REPORT 2015

PETRONAS

THRIVING IN TOUGH TIMES

ANNUAL REPORT 2015

INSIDE THIS REPORT

It has been a challenging year for **PETRONAS**, and will likely continue to be so for the foreseeable future. Leveraging on the strength of our most valuable asset, our people, we are rising up to the challenges before us. Collectively, we strive to stay ahead by continuing to push boundaries in the industry's new realities and achieve real, sustainable and long-term growth.

ABOUT THIS REPORT

We are pleased to present our Annual Report 2015. This year, PETRONAS has adopted a more comprehensive reporting approach that captures both our performance in the previous year as well as our current achievements, as we strive to emulate best practices in corporate reporting. We hope to provide a more holistic view of our collective efforts to achieve our immediate and long-term business targets across the entire PETRONAS Group. This is also in line with PETRONAS' transformation initiative to ensure our resilience in the current challenging industry environment and our continued business sustainability.

PETRONAS AT A GLANCE

Petroliam Nasional Berhad (PETRONAS), established in 1974, is Malaysia's fully integrated oil and gas multinational ranked among the largest corporations on FORTUNE Global 500®. As the custodian of Malaysia's oil and gas resources, we explore, produce and deliver energy to meet society's growing needs.

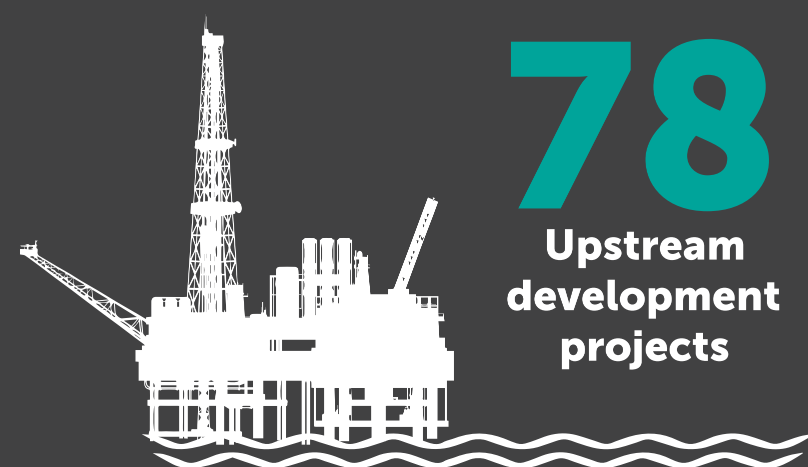
Started business in 1974:
41 years of proven track record

1974 · 1979 · 1989 · 1991 · 1996 · 1999 · 2001 · 2009 · 2015

91 partners worldwide

28% of PETRONAS workforce are women

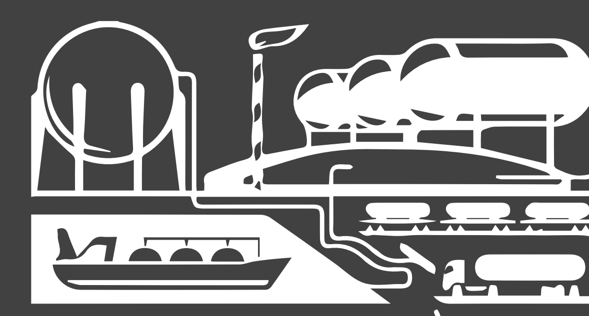
53% of total workforce are below 35 years old



78 Upstream development projects

More than **250** platforms worldwide

5 major LNG facilities



KEY HIGHLIGHTS

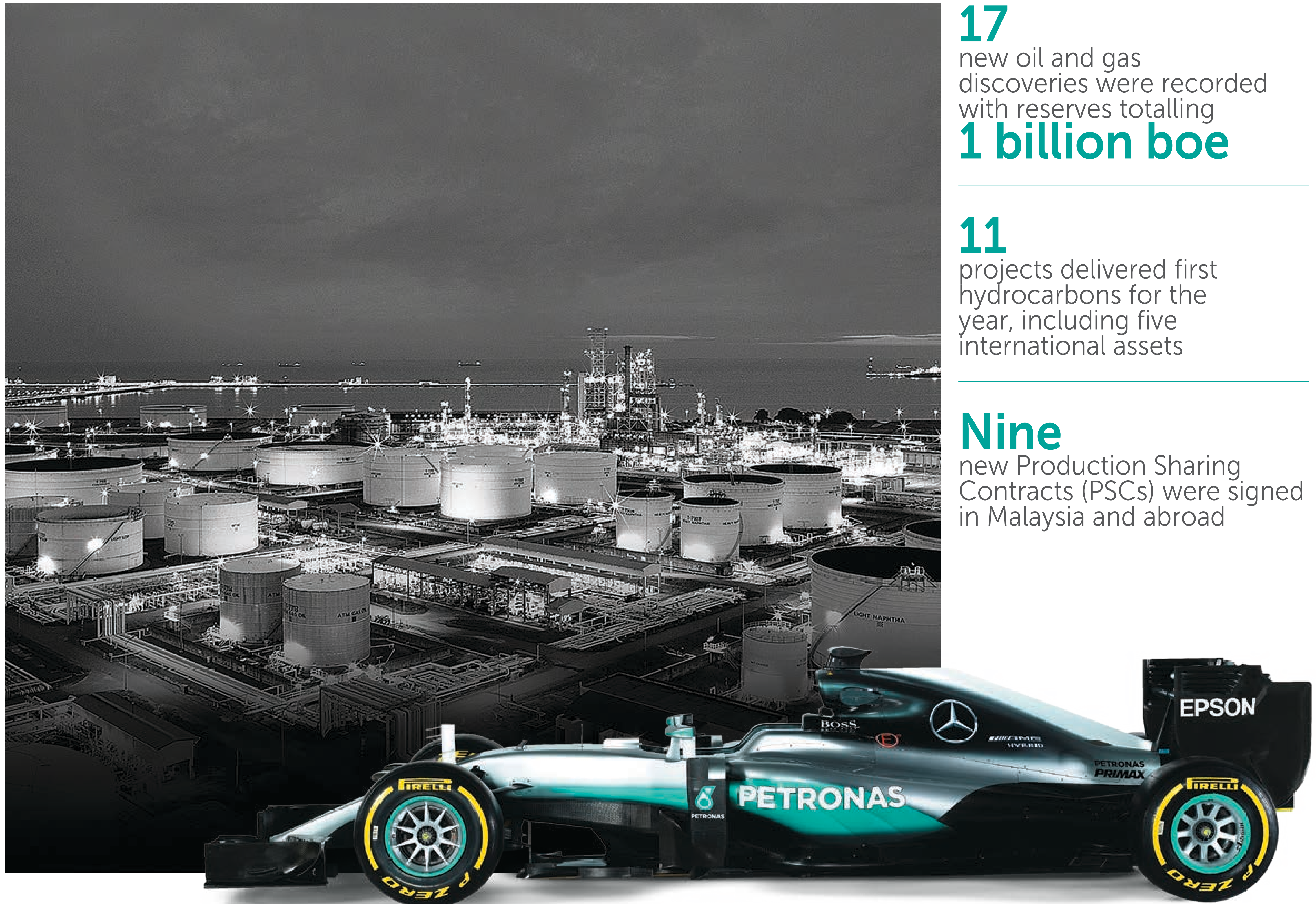
PETRONAS provided the winning formula to the Formula One **world champions** of 2014 & 2015

2014 & 2015 F1 World **Constructor's Championship** title for MERCEDES AMG PETRONAS Formula One™ Team

Total assets increased to **RM591.9 billion** from RM537.5 billion in 2014

Downstream business recorded **56% increase** in Profit After Tax in 2015

Recorded **15 million man-hours** without Lost Time Injury for the PETRONAS Floating LNG Satu project



17 new oil and gas discoveries were recorded with reserves totalling **1 billion boe**

11 projects delivered first hydrocarbons for the year, including five international assets

Nine new Production Sharing Contracts (PSCs) were signed in Malaysia and abroad

OUR VISION

A Leading **Oil and Gas** Multinational of Choice

OUR MISSION

We are a business entity

Oil and Gas is our core business

We add value to this resource

We contribute to the wellbeing of society

OUR VALUES

Loyalty
Loyal to corporation

Integrity
Honest and upright

Professionalism
Strive for excellence

Cohesiveness
United, trust and respect for each other

KEY
MESSAGE

MESSAGE FROM THE PRESIDENT & GROUP CEO

In my first PETRONAS Annual Report message as President and Group Chief Executive Officer (CEO), I wish to first and foremost thank my predecessor, Tan Sri Dato' Seri Shamsul Azhar Abbas for his leadership and guidance leading up to the beginning of my tenure. I would also like to express my sincere appreciation to the Board of Directors as well as my leadership team, for their confidence and trust in me, and their continuous support as we collectively take on the duty of steering PETRONAS through an undeniably difficult period.

DATUK WAN ZULKIFLEE WAN ARIFFIN
President & Group Chief Executive Officer

MESSAGE FROM THE PRESIDENT & GROUP CEO

While 2014 started and ended with oil prices at opposing ends of the price continuum, 2015 marked the start of a "new normal" in low oil prices, with Brent averaging at USD52 dollars a barrel for the year, weighed down by ceaseless production against declining global demand.

PETRONAS pulled through a very difficult year in 2015 to emerge still profitable, but severely weathered by the downturn.

The PETRONAS Group closed the Financial Year 2015 with Total Assets of RM591.9 billion, up from RM537.5 billion in 2014, mainly due to additional capital investments during the year, as we continue to see through commitments to our growth strategy.

Revenue for the year was, as expected, hit hard by low oil prices, and was recorded at RM248 billion, a 25 per cent drop from 2014. Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) decreased by 40 per cent to RM75.5 billion, while Profit After Tax suffered a 56 per cent drop to RM21 billion. The staggering decrease is largely attributed to net impairment on assets taken as prudent measures in light of significantly reduced oil price forecasts.

PETRONAS paid RM26 billion in dividends to the Malaysian Government, and continued to be the sole contributor to the National Trust Fund with a contribution of RM100 million for the year.

PETRONAS' Health, Safety and Environment (HSE) performance for 2015 recorded a reduction in Fatal Accident Rate (FAR) compared to 2014. However, we are disappointed to have recorded four fatalities during the year, and a slight increase in major incidents as compared to 2014. Immediate intervention measures have been introduced to tighten controls and enforce safety behaviours that meet stringent internal standards.

MESSAGE FROM THE PRESIDENT & GROUP CEO

A progressive step taken in the area of Sustainable Development saw the roll-out of PETRONAS' Human Rights Commitment across the Group, to ensure that our activities are governed by human rights principles, regulations, laws, best industry practices and standards.

Operationally, PETRONAS continued to perform strongly despite the severe impact of low oil prices on our financial performance for the year. We achieved significant operational milestones which are detailed out by the respective Executive Vice Presidents and CEOs of the Upstream and Downstream Businesses in this Annual Report.

This is a true testament of the dedication and commitment demonstrated by the employees of PETRONAS who have rallied behind the organisation during this challenging period.

On the part of the organisation, a concerted effort to counter the impact of low oil prices on PETRONAS' financial performance was launched in April, when signs of a prolonged downturn began to emerge.

Six focus areas were targeted. The first three were to ensure PETRONAS' immediate survival in the onslaught of falling oil prices by remaining competitive, and the other three were geared towards the organisation's long-term sustainability.

Under the first three focus areas, we delved into cash management and generation, cost efficiency and process simplification, and focused execution of our projects. I am pleased to report that these efforts have led to tangible cash generation and cost savings of up to RM1.4 billion, cushioning further impact to our bottom line. In the coming three years, we expect these initiatives to generate an additional RM6 billion to RM7 billion.

MESSAGE FROM THE PRESIDENT & GROUP CEO

In driving cost efficiency and process simplification further, three critical Group-wide processes – the hire-to-retire, procure-to-pay and the planning and budgeting processes have been radically simplified, recouping value and resources from across the value chain. From the simplification of the planning and budgeting process alone, more than 400,000 man-hours are expected to be recovered, which can be reallocated to more productive and value-generating activities. These efforts spearhead ongoing Group-wide efforts to simplify work processes to return more value back to the businesses.

For the three focus areas for PETRONAS' long-term sustainability, there were teams put in place to study the way we manage and develop talents, our technology agenda and our internal work culture. These studies have evolved into Group-wide initiatives to ensure that despite the current challenges, PETRONAS continues to invest in strategic levers – both tangible and intangible – for the organisation to sustain growth well into the future.

A key achievement from the effort to drive work culture change in PETRONAS was to realign the organisation to the Company's Vision, Mission, Strategic Directions and Shared Values, housed together under the Corporate Agenda. A thorough review of the elements within the Corporate Agenda commenced under the guidance of the Board of Directors, resulting in a refreshed Mission for PETRONAS, as well as revised narratives for the Shared Values. These changes reflect the evolving dynamics of PETRONAS' business on a global scale, and acknowledge our increasingly diverse workforce. With the Corporate Agenda instated as our guiding principle, we introduced a set of six PETRONAS Cultural Beliefs to sustain the transformation initiatives under this concerted response to the industry downturn. The PETRONAS Cultural Beliefs are expected to create the desired experiences for employees that will influence their beliefs and actions to achieve our shared targets.

Together, these efforts have effected a wave of change initiatives to transform the organisation and I am encouraged by the strong show of support from our dedicated workforce to see them through. This transformation journey is led by the senior leadership team, and backed by a consistent communication plan to ensure that employees remain informed and motivated about being part of a movement to navigate PETRONAS through the current storm and emerge stronger and more competitive from it.

Towards the final quarter of 2015, it became clear that prices had yet to bottom out, and that the next two years will likely remain challenging for PETRONAS. Our resilience and endurance will be severely tested as the

MESSAGE FROM THE PRESIDENT & GROUP CEO

possibility of even lower crude oil prices loom for 2016, and we will need to flex our financial muscles hard over a stretched period into 2017. This calls for follow-through actions under the transformation journey in 2016, at a scale unprecedented in PETRONAS' history. Inaction will be irresponsible; it will be imperative for us to push through with the transformation initiatives to survive this downturn, and retain sufficient strength and robustness to get back on a growth trajectory once the tide turns for the industry.

DATUK WAN ZULKIFLEE
President & Group Chief Executive Officer

CORPORATE REVIEW

OUR PROFILE

Petroliam Nasional Berhad (PETRONAS) is Malaysia's fully integrated oil and gas multinational wholly-owned by the Malaysian Government. Established in 1974, PETRONAS is now ranked amongst the largest companies in the world with a proven track record in integrated oil and gas operations spanning the entire hydrocarbon value chain.

PETRONAS' business activities include (i) the exploration, development and production of crude oil and natural gas in Malaysia and overseas; (ii) the liquefaction, sale and transportation of Liquefied Natural Gas (LNG); (iii) the processing and transmission of natural gas, and the sale of natural gas products; (iv) the refining and marketing of petroleum products; (v) the manufacturing and selling of petrochemical products; (vi) the trading of crude oil, petroleum, gas and LNG products and petrochemical products; and (vii) shipping and logistics relating to LNG, crude oil and petroleum products. Committed to ensuring business sustainability, PETRONAS also strives to responsibly manage natural resources in a way that contributes holistically to the wellbeing of society wherever it operates.

UPSTREAM

MAXIMISING RESOURCES FOR GROWTH

PETRONAS' Upstream business which encompasses Exploration, Development & Production, LNG Trading & Marketing, LNG Assets and Malaysia Petroleum Management, is a fully integrated business covering a broad portfolio of resources and play types in more than 20 countries. As the custodian of Malaysia's petroleum resources, PETRONAS is focused to pursue sustainable value-driven production growth, monetise gas resources, strengthen core capabilities and build niche competencies. Proven capability and track record of successful onshore and offshore developments in oil and gas have earned PETRONAS reputable operatorship in many ventures across the world.

In Malaysia, PETRONAS runs 198 producing fields and 355 offshore platforms while promoting sustainable and orderly development of Malaysia's petroleum resources through 101 active Production Sharing Contracts.

EXPLORATION

Exploration is the 'growth engine' for PETRONAS comprising a consolidation of exploration functions from Upstream Malaysia, Upstream International (PETRONAS Carigali Sdn Bhd) and Malaysia Petroleum Management (MPM) which searches, acquires, extracts and delivers new resources to sustain long-term production. Core activities are block acquisition, growth strategies, basin evaluation, play generation, prospect maturation and exploration drilling.

An Exploration Centre of Excellence (COE) comprising Basin & Petroleum System Analysis, Geology Solutions, Reservoir Geoscience and Geophysics Solutions collectively deliver new Resource Addition providing the pipeline for hydrocarbon reserves to be developed, leading to sustained and long-term hydrocarbon production.

DEVELOPMENT & PRODUCTION

Development & Production (D&P) comprises a consolidation of development and production functions of Upstream Malaysia and Upstream International, LNG Assets as well as a COE, which provides value-driven, world-class operational delivery, with utmost priority on Health, Safety, Security and Environment (HSSE), and Asset Integrity.

Strategic expansion plans underway include shale gas-to-LNG project in Canada and one of the world's first coal bed methane-to-LNG projects in Gladstone, Australia. The completion and commissioning of the PETRONAS Floating LNG Satu, the first-of-its-kind in the world, puts the Company at the forefront of technology and innovation in carrying out its strategies to monetise gas. A portfolio of inventive technology and engineering solutions complement its existing capabilities across the integrated gas value chain, providing PETRONAS a competitive edge and flexibility to meet buyers' energy needs.

Meanwhile, the end-to-end capabilities across the integrated gas value chain has allowed PETRONAS to become a leading global LNG player and reliable LNG supplier (PETRONAS LNG Complex, Bintulu), having successfully delivered more than 9,000 LNG cargoes to buyers across the globe for more than three decades. With a current total of eight production trains and a combined capacity of 25.7 mtpa, the complex is one of the world's largest LNG production facilities at a single location. Train 9 will add another 3.6 mtpa of LNG.

The D&P COE which comprises Petroleum Engineering, Wells and Operations & Maintenance, collectively looks at technical solutions for Exploration, MPM and Project Delivery & Technology (PD&T) to support upstream business growth.

MALAYSIA PETROLEUM MANAGEMENT

Premised upon efficiency, profitability and value maximisation, PETRONAS' successes in its upstream efforts in Malaysia are realised through partnerships with oil and gas majors as well as international and domestic service providers. A distinctive resource owner and regulator of Malaysia's upstream industry, Malaysia Petroleum Management (MPM) drives value creation and shapes Malaysia's petroleum industry whilst managing external stakeholders.

MPM focuses on building a competitive and conducive business environment to attract new investments via attractive commercial propositions to enable further growth in mature basins to maximise Malaysia's resource recovery. In addition, MPM regulates and provides stewardship to Petroleum Arrangement Contractors (PACs) throughout the whole development and operations phase.

PACIFIC NORTH WEST LNG

A joint venture company responsible for the development of the Canada LNG project, together with partners Japan Petroleum Exploration Co Ltd (JAPEX), China Petroleum & Chemical Corporation (SINOPEC), Indian Oil Corporation Ltd, and Brunei National Petroleum Company Sdn Bhd (PetroleumBRUNEI).

LNG TRADING & MARKETING

Capturing the best value across the LNG value chain by offering the most competitive value propositions to PETRONAS' LNG customers, LNG Trading & Marketing determines immediate and long-term LNG volume requirements, marketing & trading strategies and deliveries, to capture optimum value.

Operating in a manner that is commercially, environmentally and socially sustainable, PETRONAS strives to invest and build capabilities in communities where it operates. This commitment continues to drive a technical edge which allows PETRONAS to consistently deliver value to its partners, stakeholders and investors in the upstream business.

OUR PROFILE

DOWNSTREAM

Downstream Business is a made up of multiple businesses and plays the strategic role in enhancing value to molecules through an integrated operation, on the foundation of being operationally and commercially excellent. The diverse activities include refining, trading, and marketing of crude oil and petroleum products as well as manufacturing and marketing of petrochemical products for local and international consumption.

PETRONAS owns and operates gas infrastructure and utilities, involving gas processing and utilities, as well as gas transmission and regasification. Within Peninsular Malaysia, PETRONAS processes natural gas piped from offshore fields and transports the processed gas via the Peninsular Gas Utilisation (PGU) pipeline network to customers in Malaysia and Singapore. In addition, the Company supplies steam and industrial gases for customers at Kertih Integrated Petrochemical Complex in Terengganu and Gebeng Industrial Area in Pahang.

Across the diverse value chain, the challenge for Downstream remains on managing the margins. The brand is expected to be a high-performing business backed by world-class operations, infrastructure and manufacturing facilities. It is recognised as a significant industry player with competitive products, offerings and solutions delivered to customers with consistent quality and reliability. As such, its operating model is designed to enhance market competitiveness, mitigate external and internal challenges as well as maximise future growth potential.

Currently, the Company has 570 kbpd of refining capacity – 430 kbpd domestically and the remaining in Durban, South Africa and 10.8 million mtpa of petrochemical production capacity within 16 manufacturing subsidiaries, joint ventures and associate companies. By 2020, once completed and fully in operation, the Refinery and Petrochemical Integrated Development (RAPID) Project in Pengerang, Johor (slated for start-up in 2019), and Project SAMUR in Sipitang, Sabah (by 2016), will increase refinery capacity by 300 kbpd and petrochemical capacity to 16 million mtpa. Set to be the largest integrated refinery and petrochemical development in a single location, Project RAPID will diversify the feedstock from gas-based to naphtha and expand the portfolio of products to include specialty chemicals.

PETRONAS Trading Corporation Sdn Bhd (PETCO), a wholly-owned subsidiary of PETRONAS, undertakes marketing and trading activities of crude oil and petroleum products.

PETRONAS Dagangan Berhad (PDB) manages all domestic marketing and retailing activities for a wide range of petroleum products in Malaysia, while Engen Petroleum Limited is responsible for handling of retail business in South Africa and sub-Saharan Africa.

Petrochemical products are distributed through our marketing subsidiaries in Malaysia, Thailand and China as well as supported by representative offices in Indonesia, Vietnam and the Philippines. To date, 80 per cent of PETRONAS'

OUR PROFILE

petrochemical revenues are generated from more than 1,000 active customers who have been in business with PETRONAS for over 10 years. Moving forward, the Asia Pacific market will remain key to PETRONAS' petrochemical arm.

PETRONAS Lubricants International Sdn Bhd (PLI) oversees the lubricants business globally through an extensive network that expands over 30 marketing offices in 23 countries, PETRONAS owns 11 lubricants blending plants globally.

Since 2009, PETRONAS has not only been the Title Sponsor to the Mercedes AMG PETRONAS Formula One™ Team, but more importantly, has grown to be a Technical Partner. The PETRONAS Total Fluid Solutions™ is a collaboration with the Mercedes AMG engineers to co-develop not just the fuels, lubricants and functional fluids, but also to co-design the new 1.6 litre turbocharged direct-injection V6 hybrid Formula One engine to exploit maximum synergy between engine development and PETRONAS products. The same is now powering the Silver Arrows: the double consecutive World Constructor's Champion in 2014 and 2015.

More importantly, given the 2014 FIA regulations intended to ensure that race car technology is well aligned to road car technology, the switch to turbocharged 1.6 litre V6 hybrid formula strengthens the focus on fuel efficiency to power engine performance. This valuable experience along with the many successes from this intense sport enables PETRONAS to consistently transfer the knowledge and insights from extreme racing machines on the race tracks to everyday vehicles on the roads.

OUR PROFILE

It comes as no surprise then, that all of the four-cylinder and eight-cylinder AMG models as well as a significant number of Mercedes-Benz units are factory-filled with PETRONAS Syntium with °CoolTech™, an innovative solution to fight excessive engine heat that also delivers optimum engine performance, whether on the race track or on the road. It is also the only engine oil approved as the first fill for all high-performance Mercedes-Benz AMG M133 engines, which is the world's most powerful 4x-cylinder series production engine across all applications.

Moving forward, PETRONAS will further leverage on its proven track record in sustaining world-class operational excellence and competitive marketing capabilities, to capture opportunities domestically as well as key growth markets internationally, expanding our presence across the Downstream value chain. Stronger emphasis will also be placed on delivering key projects safely, on time and within cost.

Downstream Business Excellence will focus on operational strategy, planning & integration, Health, Safety, Security & Environment (HSSE) excellence, asset performance excellence, plant project, turnaround & shutdown excellence as well as culture excellence.

This will be reinforced by Downstream Commercial Excellence, where greater emphasis will be placed on customer experience and cost excellence, whilst leveraging on technology to be more competitive.

PRODUCT RANGE

PETRONAS Fuel

PETRONAS PRIMAX 95

PETRONAS PRIMAX 97

PETRONAS DYNAMIC DIESEL

NGV

Convenience Store (C-Store)

Mesra

LPG

GAS PETRONAS

OUR PROFILE

LUBRICANTS BUSINESS

PETRONAS Lubricants International Sdn Bhd (PLI) is PETRONAS' global lubricants manufacturing and marketing arm. With a strong presence in more than 80 countries and five continents, the PLI product range includes high-quality lubricants and functional fluids for both the automotive and industrial markets, as well as a range of car care products. Flagship brands include PETRONAS Syntium for passenger vehicles, PETRONAS Sprinta for motorcycles, and PETRONAS Urania for commercial vehicles. Headquartered in Kuala Lumpur, PLI has over 30 marketing offices in 23 countries, managed through regional offices in Kuala Lumpur, Turin, Belo Horizonte, Chicago and Durban.

LUBRICANTS	
Passenger Car Motor Oil	PETRONAS SYNTIUM, PETRONAS MACH 5, PETRONAS SELENIA
Motorcycle Oil	PETRONAS SPRINTA, PETRONAS SYNTIUM moto
Automotive Functional Fluids	PETRONAS TUTELA, PETRONAS Paraflu
Agriculture & Construction Lubricants	PETRONAS Akros, PETRONAS Arbor, AMBRA, AKCELA
Commercial Vehicle Lubricants	PETRONAS Urania

Base Oil	ETRO®	
	Group III Etro 4 & Etro 6	**Group II** M500

OUR PROFILE

PETROCHEMICAL BUSINESS

PETRONAS Chemicals Group Berhad (PCG) leads the growth of PETRONAS' Petrochemical Business, an important segment of the petroleum industry which supports the manufacturing and fast-moving consumer goods (FMCG) sectors. The leading petrochemicals producer in Malaysia and one of the largest in Southeast Asia, PCG is involved primarily in the manufacturing, marketing and selling of a diverse range of petrochemical products including olefins, polymers, fertilisers, methanol and other chemicals and derivative products. Today, its integrated petrochemical complexes in Kertih, Terengganu and Gebeng, Pahang as well as manufacturing complexes in Gurun, Kedah; Bintulu, Sarawak; and Labuan have a total production capacity of over 10 million mtpa.

1 Chemical Products

PCG comprises **22** manufacturing companies producing a wide range of chemical products

2 Business Segment

2 business segments:
- Olefins and Derivatives
- Fertilisers and Methanol

3 Petrochemical Complexes

2 integrated petrochemical complexes:
- Kertih, Terengganu
- Gebeng, Pahang

4 Manufacturing Complexes

3 manufacturing complexes that produce fertilisers and methanol:
- Gurun, Kedah
- Bintulu, Sarawak
- Federal Territory of Labuan

5 Production Capacity

10.8 million mtpa

6 Market Leadership

- Largest producer of methanol in the world; Fourth largest producer in Southeast Asia.
- Second largest producer of urea in Southeast Asia, with the Completion of the SAMUR Project.
- Third largest producer of low-density polyethylene (LDPE) in Southeast Asia.

7 Sole Producer

of methanol, urea, paraxylene, methyl tertiary butyl ether (MTBE), ethanolamines, ethoxylates, glycol ethers, butanol and butyl acetates in Malaysia

8 Joint Venture

BASF Nederland BV, BP Holdings International BV, Idemitsu Kosan Co Ltd, Dialog Equity Sdn Bhd, VOPAK Terminal Penjuru Pte Ltd, MJPX Co Ltd, Sasol Holdings (Asia Pacific) Pty Ltd, and National Farmers Organisation (NAFAS)

PROJECT DELIVERY & TECHNOLOGY

PETRONAS continues to redefine the future of energy with innovative approaches to technology and engineering in order to maximise and deliver sustainable energy for tomorrow. Project Delivery and Technology (PD&T), PETRONAS' Centre of Excellence with distinctive expertise, leading practices and innovative solutions as well as robust systems and processes is strategically positioned to support PETRONAS' growth and future positioning strategies. PD&T leverages on the value integration between Project, Procurement, Technical and Technology to deliver top quartile projects and technology as a differentiator.

PD&T with its leaner, flatter and efficient structure allows PETRONAS to be more agile whilst continuing to remain competitive and robust enough to withstand challenges and grow, to meet desired targets.

OUR GLOBAL PRESENCE

ASIA PACIFIC

UPSTREAM • **Australia** – Exploration, Development, Production & LNG • **Brunei** – Exploration & Development, Project Delivery & Technology • **China** – Exploration • **Indonesia** – Exploration & Development, Project Delivery & Technology • **Malaysia** – Exploration, Development, Production, LNG & Project Delivery & Technology • **Malaysia-Thailand Joint Development Area** – Exploration, Development • **Myanmar** – Exploration, Development, Production & Project Delivery & Technology • **Vietnam** – Exploration, Development & Production & Project Delivery & Technology

DOWNSTREAM • **Australia** – Oil & Petrochemical • **Bangladesh** – Oil • **China** – Lubricants, Oil & Petrochemical • **Hong Kong** – Oil • **India** – Lubricants, Oil & Petrochemical • **Indonesia** – Lubricants, Oil & Petrochemical • **Japan** – Oil & Petrochemical, Project Delivery & Technology • **Malaysia** – Lubricants, Oil & Petrochemical, Project Delivery & Technology • **Myanmar** – Lubricants & Oil • **New Zealand** – Petrochemical • **Pakistan** – Lubricants & Oil • **Philippines** – Oil & Petrochemical, Project Delivery & Technology • **Singapore** – Oil & Petrochemical • **South Korea** – Oil & Petrochemical, Project Delivery & Technology • **Sri Lanka** – Oil • **Taiwan** – Oil & Petrochemical • **Thailand** – Lubricants, Oil & Petrochemical, Project Delivery & Technology • **Vietnam** – Oil & Petrochemical

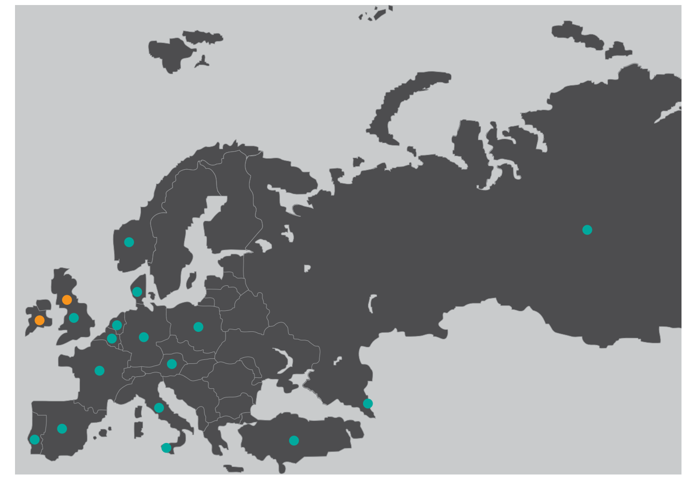
AFRICA

UPSTREAM • **Algeria** – Development & Production • **Angola** – Exploration • **Cameroon** – Development • **Chad** – Development & Production • **Egypt** – Development, Production & LNG • **Gabon** – Exploration • **Mauritania** – Production & Project Delivery & Technology • **Mozambique** – Exploration • **Republic of Sudan** – Exploration, Development & Production • **Republic of South Sudan** – Exploration, Development & Production

DOWNSTREAM • **Angola** – Lubricants • **Botswana** – Lubricants & Oil • **Burkina Faso** – Lubricants • **Burundi** – Lubricants & Oil • **Cameroon** – Lubricants • **Congo** – Lubricants • **Democratic Republic of the Congo** – Oil & Lubricants • **Gabon** – Lubricants & Oil • **Ghana** – Lubricants & Oil • **Kenya** – Lubricants & Oil • **Lesotho** – Lubricants & Oil • **Madagascar** – Lubricants • **Malawi** – Lubricants & Oil • **Mauritius** – Lubricants & Oil • **Mozambique** – Lubricants & Oil • **Namibia** – Oil • **Niger** – Lubricants • **Réunion** – Lubricants & Oil • **Republic of Sudan** – Lubricants & Oil • **Rwanda** – Lubricants & Oil • **Senegal** – Lubricants • **South Africa** – Lubricants & Oil • **Swaziland** – Lubricants & Oil • **Tanzania** – Lubricants & Oil • **Togo** – Lubricants • **Zambia** – Lubricants & Oil • **Zimbabwe** – Lubricants & Oil

** Includes Engen subsidiaries and marketing and trading offices.*

EUROPE



UPSTREAM • **Ireland** – Exploration, Production & Gas Storage • **United Kingdom** – LNG

DOWNSTREAM • **Austria** – Lubricants • **Belgium** – Lubricants **Denmark** – Lubricants • **France** – Lubricants • **Germany** – Lubricants • **Italy** – Lubricants & Project Delivery & Technology • **Netherlands** – Lubricants & Oil • **Norway** – Oil • **Poland** – Lubricants • **Portugal** –Lubricants • **Russia** – Lubricants & Oil • **Spain** – Lubricants • **Turkey** – Lubricants • **United Kingdom** – Lubricants & Oil

LATIN AMERICA

UPSTREAM • **Suriname** – Exploration • **Argentina** – Exploration

DOWNSTREAM • **Argentina** – Lubricants • **Balboa** – Lubricants & Oil • **Brazil** – Lubricants • **Chile** – Lubricants • **Colombia** – Lubricants • **Peru** – Lubricants

MIDDLE EAST

UPSTREAM • **Iraq** – Development, Production & Project Delivery & Technology

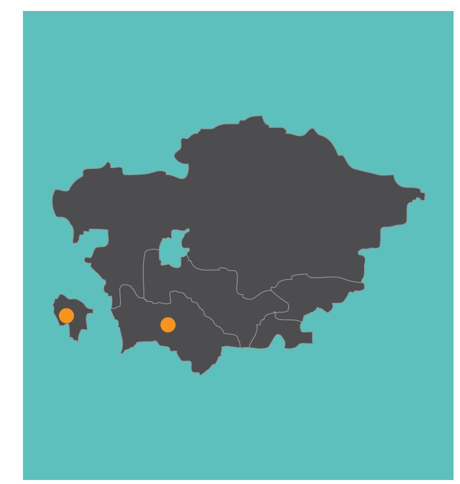
DOWNSTREAM • **Egypt** – Lubricants • **Kuwait** – Oil • **Qatar** – Oil • **United Arab Emirates** – Lubricants & Oil

NORTH AMERICA

UPSTREAM • **Canada** – Exploration, Development, Production, LNG

DOWNSTREAM • **Mexico** – Lubricants • **United States of America** – Lubricants

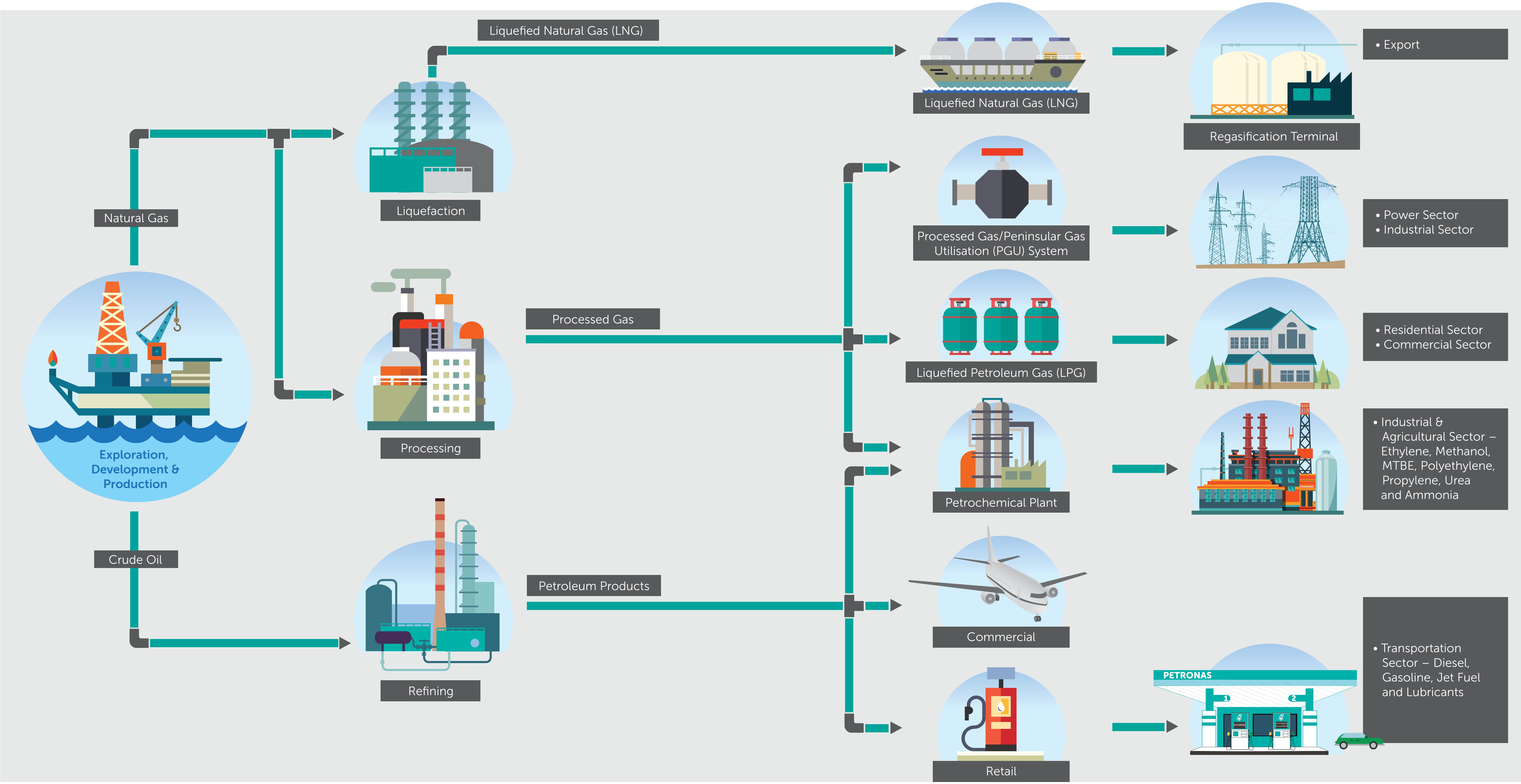
CENTRAL ASIA



UPSTREAM • **Turkmenistan** – Exploration, Development, Production & Project Delivery & Technology • **Azerbaijan** – Development & Production

DOWNSTREAM • **Georgia** – Oil

OUR BUSINESS



STRATEGIC BUSINESS UNITS

UPSTREAM

PETRONAS Upstream Business is a fully-integrated business across the oil and gas value chain, with a broad portfolio of resources and play types around the globe. PETRONAS' focus is to pursue sustainable value-driven production growth domestically and internationally, monetising gas while strengthening core and building niche capabilities.

Exploration

- The Growth Engine for PETRONAS to search, extract and deliver new resources.

Development & Production

- Provide value-driven, world-class operational delivery, with utmost priority on HSSE and Asset Integrity.

LNG ASSETS

- Responsible for overall LNG project delivery and growing asset value for shareholders.

PETRONAS Carigali Sdn Bhd (PCSB)

- A hands-on operator with an established track record, working alongside local and global majors.

Malaysia Petroleum Management (MPM)

- Strategic resource owner and regulator, an industry-shaper that enables effective external stakeholder management.

LNG Marketing & Trading

- Capturing the best value across the LNG value chain by offering the most competitive value propositions to our LNG customers.

Pacific North West LNG

- A joint venture company responsible for the development of the Canada LNG project, together with partners; JAPEX of Japan, SINOPEC of China, IOC of India and PB of Brunei.

Centre of Excellence

To provide integrated exploration expertise and solutions.

GROUP FUNCTIONS

Focuses on delivering fit-for-purpose, supportive and enabling business services and solutions

Group Functions include:

- Treasury, Tax, Finance & Account Services
- Risk Management
- ICT Services
- Project Delivery
- Technology (Research & Technology, and Technical Solutions, Technical Data, Technical Capability Management)
- Procurement
- Corporate Strategy
- Human Resource Management
- Legal Services
- Health, Safety, Security & Environment
- Strategic Communications
- Internal Audit

DOWNSTREAM

PETRONAS Downstream Business is a made up of multiple businesses and is focused on adding value to the molecules, on the foundation of being operationally and commercially excellent. PETRONAS' focus is to enhance market competitiveness, mitigate external and internal challenges as well as maximise its future growth potential.

Marketing

Spearhead Commercial Excellence to realise best value for the business through:

- **PETRONAS Dagangan Berhad**, a Bursa Malaysia-listed company with over 1,000 retail stations and more than 760 Kedai Mesra convenience stores across Malaysia.
- **PETRONAS Lubricants International Sdn Bhd (PLI)** with over 30 marketing offices in 23 countries, with regional offices located in Kuala Lumpur, Turin, Belo Horizonte, Chicago and Durban. PLI's product range and the PETRONAS brand reaches over 80 countries in five continents.
- **Engen Petroleum Limited** with presence in over 20 countries and over 1,450 service stations across sub-Saharan Africa and the Indian Ocean islands, with products exported to over 30 countries.

Refining & Trading

- Owns and operates refining assets with a total nomination capacity of 570 kbpd through **PETRONAS Penapisan (Melaka) Sdn Bhd** at 300 kbpd, **PETRONAS Penapisan (Terengganu) Sdn Bhd** at 124 kbpd and Engen Refinery (Durban, South Africa) at 135 kbpd.
- **PETRONAS Trading Corporation Sdn Bhd (PETCO)** acts as PETRONAS' global trading arm for crude oil and petroleum products, with trading operations in London, Jakarta and Dubai.

PETRONAS Refinery & Petrochemical Corporation

- A subsidiary of PETRONAS dedicated to developing its refinery and petrochemical capabilities through the Refinery & Petrochemical Integrated Development (RAPID) complex located within the Pengerang Integrated Complex (PIC) in Johor, PETRONAS' largest single downstream investment to date.

PETRONAS Gas Berhad

- Listed on Bursa Malaysia, it has one of the largest shares in market capital. Its portfolio includes the development of gas infrastructure and utilities (GPU) and Gas Transmission & Regasification (GTR), processing of natural gas piped from PETRONAS' offshore fields, and transporting of processed gas via the Peninsular Gas Utilisation (PGU) pipeline network as well as steam and industrial gases.

Centre of Excellence

To drive commercial excellence in realising best value for the business.

PETRONAS Chemicals Group Berhad

- Listed on Bursa Malaysia, it is one of Southeast Asia's largest integrated chemical producers, operating in numerous fully integrated (feedstock to downstream end-products) world-class production sites, and is involved primarily in the manufacturing, marketing and selling of a diversified range of chemical products, including olefins, polymers, fertilisers, methanol and other basic chemicals and derivative products.

GROUP ORGANISATIONAL **STRUCTURE**

BOARD
(refer pages 116-125)

President & Group Chief Executive Officer
Datuk Wan Zulkiflee Wan Ariffin*

Chief Integrity Officer
Dato' Samsiah Abu Bakar

Executive Vice President & Chief Executive Officer Upstream Business
Datuk Mohd Anuar Taib*

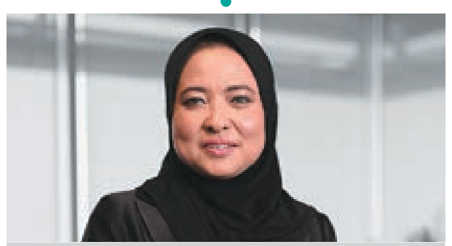
Executive Vice President & Chief Executive Officer Downstream Business
Md Arif Mahmood*

Executive Vice President & Group Chief Financial Officer
Datuk Manharlal Ratilal*

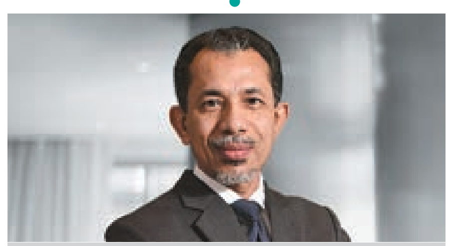
Senior Vice President Project Delivery & Technology
Mazuin Ismail*

Senior Vice President Corporate Strategy
Adif Zulkifli*

Vice President Group Health, Safety, Security & Environment
Sharbini Suhaili



Head Group Strategic Communications
Zahariah (Liza) Abdul Rahman



Head Group Internal Audit
Syed Sheikh Syed Idrus Alhabshi

Senior Vice President Group Human Resource Management
Dato' Raiha Azni Abd Rahman*

Senior Vice President & Group General Counsel
Mohamad Rauff Nabi Bax*

** Members of the Executive Leadership Team.*

GROUP CORPORATE STRUCTURE

PETRONAS GROUP OF COMPANIES

WHOLLY-OWNED SUBSIDIARIES (89)

PARTLY-OWNED SUBSIDIARIES (38)

ASSOCIATE COMPANIES (20)

- PETRONAS Carigali Sdn Bhd
  - PETRONAS Carigali Chad Exploration & Production Inc
  - PETRONAS Carigali Overseas Sdn Bhd
  - PETRONAS Carigali Iraq (Garraf) Ltd
  - PETRONAS Carigali Iraq Holding BV
  - E&P Venture Solutions Co Sdn Bhd
  - E&P Malaysia Venture Sdn Bhd
  - Associate companies:
    - Kebabangan Petroleum Operating Co. Sdn Bhd (40%)
    - PCPP Operating Company Sdn Bhd (40%)
    - BC Petroleum Sdn Bhd (20%)
    - *Bintulu Port Holdings Berhad (32.79%)

- PETRONAS Research Sdn Bhd
- Primesourcing International Sdn Bhd
- Institute of Technology PETRONAS Sdn Bhd
- PETRONAS eLearning Solutions Sdn Bhd
- PETRONAS Penapisan (Terengganu) Sdn Bhd
- PETRONAS Penapisan (Melaka) Sdn Bhd
- PETRONAS Management Training Sdn Bhd
- PETROSAINS Sdn Bhd
- Bekalan Air KIPC Sdn Bhd
- Sanzbury Stead Sdn Bhd
- PETRONAS Capital Limited
- PETRONAS NGV Sdn Bhd
- Energas Insurance (L) Limited
- PETRONAS Technical Training Sdn Bhd
- PETRONAS LNG 9 Sdn Bhd
- PETRONAS Floating LNG 1 (L) Ltd
- PETRONAS Floating LNG 2 (L) Ltd
- Malaysian Refining Company Sdn Bhd

- PETRONAS Assets Sdn Bhd
  - Petrofibre Network (M) Sdn Bhd
  - PETRONAS ICT Sdn Bhd
  - Virtus IP Sdn Bhd

- PETRONAS Hartabina Sdn Bhd
  - Prince Court Medical Centre Sdn Bhd
  - PRBF Holdings Corporation Sdn Bhd

- PETRONAS Lubricants International Sdn Bhd
  - PLI (Netherlands) B.V.
  - PETRONAS Lubricants China Company Limited
  - PETRONAS Lubricants Africa Ltd
  - PETRONAS Base Oil (M) Sdn Bhd

- PETRONAS Trading Corporation Sdn Bhd
  - PETCO Trading (UK) Limited
  - PETCO Trading Labuan Company Ltd
  - PETCO Trading DMCC

- PETRONAS Technical Services Sdn Bhd
  - PTSSB DMCC (formerly known as PTSSB JLT)
  - PETRONAS Technology Ventures Sdn Bhd
  - PETRONAS Global Technical Solutions Sdn Bhd

- PETRONAS Refinery and Petrochemical Corporation Sdn Bhd
  - PRPC Refinery Cracker Sdn Bhd
  - PRPC Utilities and Facilities Sdn Bhd

Partly-owned subsidiaries:

- *MISC Berhad (62.67%)
- Malaysia LNG Sdn Bhd (90%)
- Malaysia LNG Dua Sdn Bhd (80%)
- Malaysia LNG Tiga Sdn Bhd (60%)

- *PETRONAS Gas Berhad (60.63%)
  - Regas Terminal (Sg Udang) Sdn Bhd (100%)
  - Regas Terminal (Lahad Datu) Sdn Bhd (100%)
  - Regas Terminal (Pengerang) Sdn Bhd (100%)
  - Kimanis Power Sdn Bhd (60%)
  - Kimanis Power O&M Sdn Bhd (60%)
  - Pengerang LNG (Two) Sdn Bhd (65%)
  - Associate company:
    - Industrial Gases Solutions Sdn Bhd (50%)

- *PETRONAS Dagangan Bhd (69.86%)
  - PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd (100%) (formerly known as Lub Dagangan Sdn Bhd)
  - PETRONAS Aviation Sdn Bhd (100%)
  - PDB (Netherlands) B.V. (100%)
  - Kuala Lumpur Aviation Fuelling System Sdn Bhd (65%)
  - Associate companies:
    - IOT Management Sdn Bhd (20%)
    - Tanjung Manis Oil Terminal Management Sdn Bhd (20%)
    - PS Pipeline Sdn Bhd (50%)
    - PS Terminal Sdn Bhd (50%)

Associate companies:

- IndianOil PETRONAS Pvt Ltd (50%)
- Trans Thai-Malaysia (Thailand) Ltd (50%)
- Trans Thai-Malaysia (Malaysia) Sdn Bhd (50%)

- OGP Technical Services Sdn Bhd
  - Centroid Technical Services Co. Ltd (40%)

- KLCC (Holdings) Sdn Bhd
  - *KLCC Property Holdings Berhad (75.46%)

- PETRONAS International Corporation Ltd
  - SIRRI International Ltd
  - PETRONAS Carigali Myanmar Inc.
  - PETRONAS Carigali (Turkmenistan) Sdn Bhd
  - PC JDA Limited
  - MITCO Labuan Co. Ltd
  - PETRONAS Carigali Nile Ltd
  - PETRONAS Marketing Sudan Ltd
  - P.T. PETRONAS Niaga Indonesia
  - PICL (Egypt) Corporation Limited
  - Nada Properties Ltd
  - PC Madura Ltd
  - PC Muriah Ltd
  - PETRONAS Carigali (West Glagah Kambunan) Ltd
  - PC (Myanmar) Holdings Ltd
  - PETRONAS Carigali Myanmar III Inc.
  - PETRONAS Carigali (Jabung) Ltd
  - PETRONAS Myanmar Ltd
  - PICL Marketing Thailand Ltd
  - Myanmar PETRONAS Trading Co. Ltd
  - PETRONAS (Thailand) Co. Ltd
  - PC Vietnam Limited
  - PC Mauritania I Pty Ltd
  - PC Mauritania II BV
  - PETRONAS Philippines Inc
  - PARSI International Ltd
  - Argentinean Pipeline Holding Company S.A
  - PETRONAS Australia Pty Ltd
  - PETRONAS (E&P) Overseas Ventures Sdn Bhd
  - PETRONAS Carigali (Urga) Ltd
  - Labuan Energy Corporation Limited
  - PETRONAS Carigali (Greenland) Holding Ltd
  - PETRONAS Power Sdn Bhd
  - PETRONAS LNG Carriers Ltd
  - PETRONAS LNG Sdn Bhd
  - PETRONAS Carigali Brunei Ltd
  - PETRONAS Marketing Ventures Limited
  - PETRONAS South Africa (Pty) Ltd
  - PETRONAS Sierra Leone (E&P) Ltd
  - Partly-owned subsidiary:
    - Engen Limited (80%)
  - Associate companies:
    - Transasia Pipeline Company Pvt Ltd (35%)
    - Dragon LNG Group Ltd (50%)

- *PETRONAS Chemicals Group Bhd (64.35%)
  - PETRONAS Chemicals Marketing Sdn Bhd (100%)
  - PETRONAS Chemicals Derivatives Sdn Bhd (100%)
  - PETRONAS Chemicals Polyethylene Sdn Bhd (100%)
  - Vinyl Chloride (Malaysia) Sdn Bhd (100%)
  - PETRONAS Chemicals Methanol Sdn Bhd (100%)
  - PETRONAS Chemicals Glycols Sdn Bhd (100%)
  - PETRONAS Chemicals Ammonia Sdn Bhd (100%)
  - Polypropylene Malaysia Sdn Bhd (100%)
  - Kertih Port Sdn Bhd (100%)
  - PETRONAS Chemicals Fertiliser Kedah Sdn Bhd (100%)
  - PETRONAS Chemicals Fertiliser Sabah Sdn Bhd (100%)
  - PETRONAS Chemicals MTBE Sdn Bhd (100%)
  - PETRONAS Chemical Aromatics Sdn Bhd (70%)
  - PETRONAS Chemicals Olefins Sdn Bhd (88%)
  - PETRONAS Chemicals LDPE Sdn Bhd (60%)
  - PETRONAS Chemicals Ethylene Sdn Bhd (87.5%)
  - Asean Bintulu Fertilizer Sdn Bhd (63.47%)
  - Associate companies:
    - BASF PETRONAS Chemicals Sdn Bhd (40%)
    - Kertih Terminals Sdn Bhd (40%)
    - Idemitsu SM (Malaysia) Sdn Bhd (30%)
    - BP PETRONAS Acetyls Sdn Bhd (30%)

Note:

(I) This chart includes directly owned and up to the 2nd tier companies held by PETRONAS

(II) This chart excludes subsidiary companies of MISC Berhad, KLCC (Holdings) Sdn Bhd, Engen Limited and PLI (Netherlands) BV

(III) The records are correct as at 6 June 2016

STRATEGIC REVIEW

STRATEGIC DIRECTIONS

In Upstream, our focus is to pursue sustainable value-driven production growth domestically and internationally, monetising gas resources as well as strengthening core, and building niche capabilities.

In Downstream, the emphasis is to be operationally and commercially excellent: by achieving and sustaining world-class plant performance; ensuring a value-driven business portfolio; as well as consistently striving to offer innovative solutions through the lens of the customers.

KEY PRIORITY AREAS

PETRONAS has mapped out six key priority areas to build resilience, maintain competitiveness and profitability for long-term positioning and sustainability.

1. CASH GENERATION
2. COST EFFICIENCY & PROCESS SIMPLIFICATION
3. PROJECT EXECUTION
4. TECHNOLOGY AS A DIFFERENTIATOR
5. RETHINKING TALENT
6. CULTURE CHANGE

SUSTAINING INDUSTRY COMPETITIVENESS

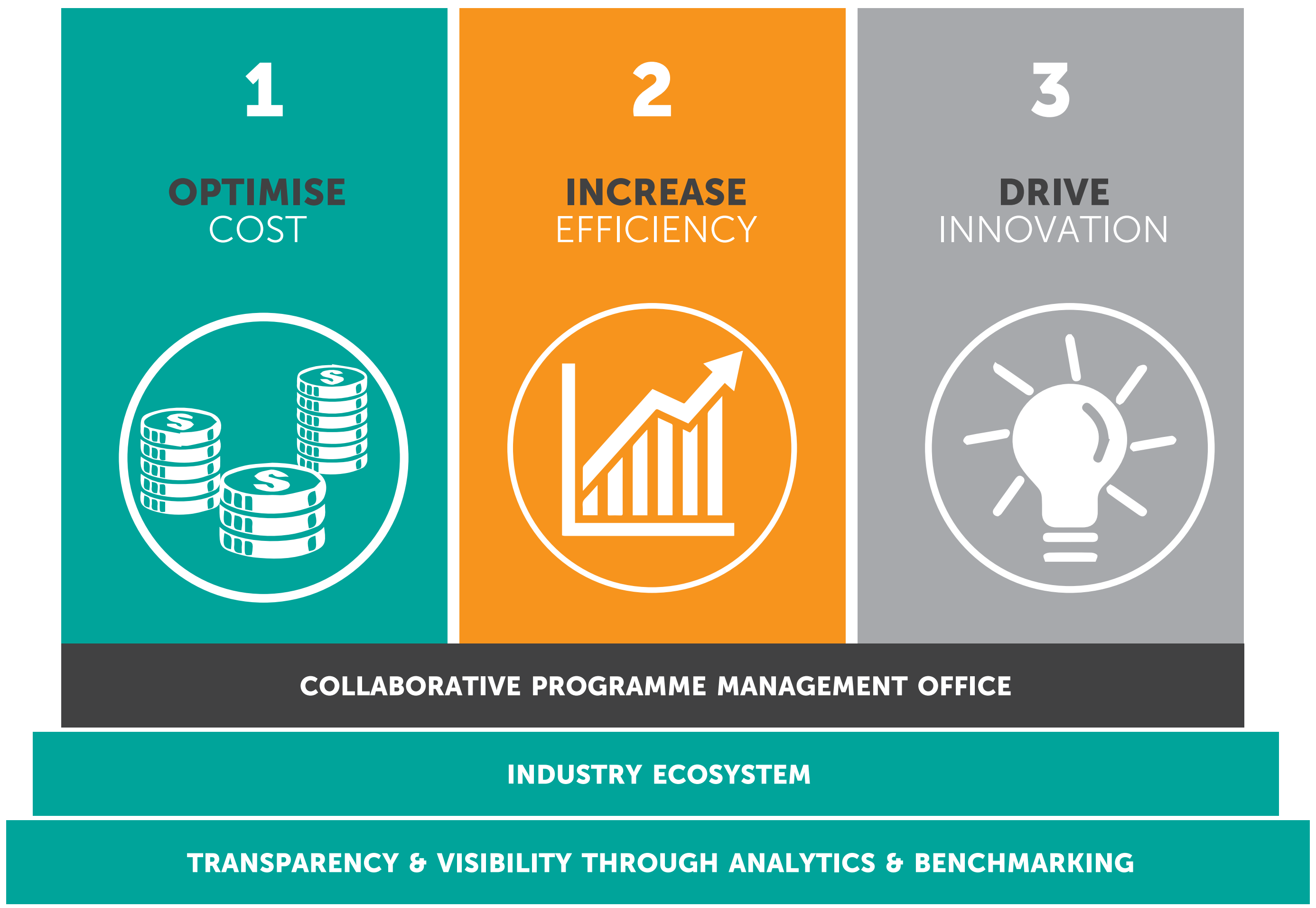
COST REDUCTION ALLIANCE 2.0

Cost Reduction Alliance 2.0 or better known as CORAL 2.0 is a long-term industry-wide programme led by PETRONAS and launched in March 2015 with an aim to sustain industry competitiveness across the domestic upstream sector through close collaboration among the Petroleum Arrangement Contractors (PACs) and Service Providers.

CORAL 2.0 will better prepare the industry for future challenges by optimising cost, increasing efficiency and driving industry innovation through deployment of new technologies.

Eleven initiatives were shaped and implemented to deliver a series of quick wins which achieved RM2.4 billion in cost savings as at December 2015.

CORAL 2.0 will continue to facilitate collaborations with PACs and Service Providers to deliver target cost savings of RM1.9 billion in 2016.



COST SAVINGS IN 2015

RM 2.4 billion
as at 31 December 2015

PETROLEUM ARRANGEMENT CONTRACTORS

Source: CORAL 2.0 Programme Dashboard as at December 2015

OUR TECHNOLOGIES & INNOVATIONS

PETRONAS TECHNOLOGIES ACROSS THE VALUE CHAIN

ENHANCED OIL RECOVERY

Realising EOR projects and building capability as the expert in offshore Enhanced Oil Recovery

GEOIMAGING

Cutting-edge solutions for subsurface imaging and reservoir monitoring

CO_2 MANAGEMENT

End-to-end technology solutions to monetise CO_2 gas fields

FLOW ASSURANCE

Providing technology solutions in the areas of solid deposition, emulsion treatment and sand management to address production losses and idle wells

ENGINEERING SOLUTIONS & TECHNOLOGY PRODUCTS

ADVANCED MATERIALS

Leveraging on the innovative uses of advanced composites and polymer solutions to reduce downtime and extend the service life of ageing pipelines, and to develop alternative pipeline technologies for corrosive fluids

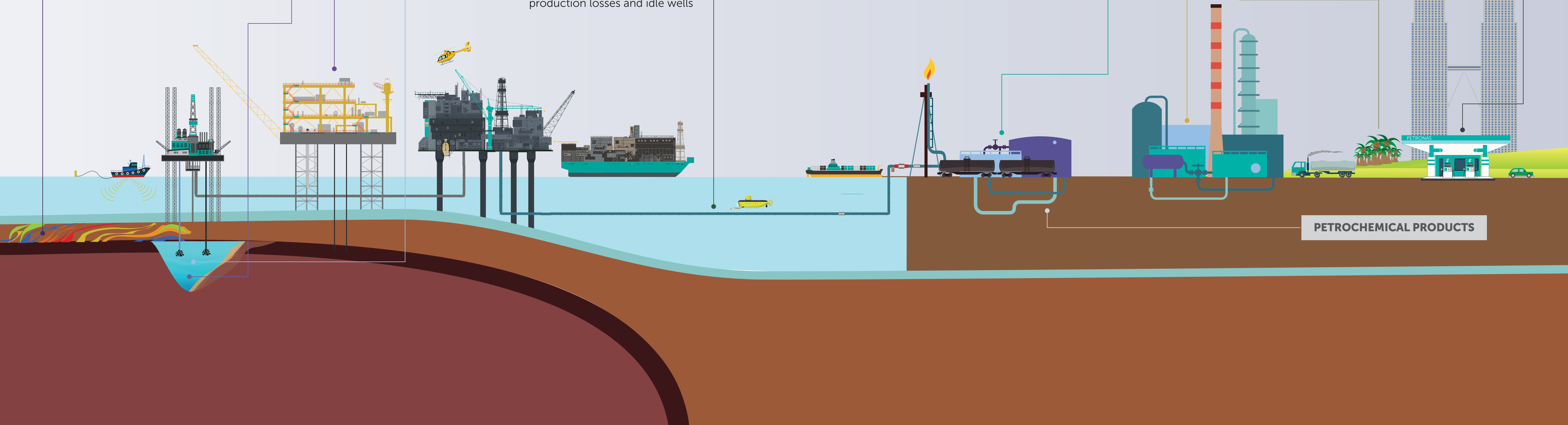
CONTAMINANTS REMOVAL

Maximising production value by managing impurities such as mercury, naphthenic acid and sulphur in hydrocarbon

BASE OIL, LUBRICANT AND FUEL

SUSTAINABILITY

PETRONAS is maximising the role of technology in achieving sustainability through business diversification and monetisation of non-conventional carbon feedstock as replacement for petroleum-based products



OUR TECHNOLOGIES & INNOVATIONS

OUR TECHNOLOGIES & INNOVATIONS

Today's research efforts are at the core of tomorrow's great achievements in the oil and gas industry. Now more than ever before, game-changing innovations are a differentiator for major players.

With keen foresight, PETRONAS has not compromised on investment in technology as a key growth strategy to gain competitive advantage and add value to its businesses.

Research & Development (R&D) in highly specialised areas, have yielded technologies and solutions that are enhancing businesses across the entire value chain of the oil and gas industry.

These revolutionary technologies have enhanced asset integrity, improved productivity, reduced environmental footprint and brought back to life fields that were considered to be depleted. In short, they have added immense value while contributing towards meeting world energy demands and providing reliable, affordable and clean energy for all.

GeoImaging

The current oil and gas climate provides a unique opportunity for technological optimisation and innovation. 2015 has been a year that has seen significant strides in PETRONAS' key focus technologies, including GeoImaging.

PETRONAS has made exciting developments in a series of advanced algorithms designed to help make better sense of seismic data and get a clearer picture of dynamic subsurface conditions. These GeoImaging technologies have improved PETRONAS' ability to identify opportunities in new basins, increasing reserves and improving recovery through optimising well trajectory. Collectively, these initiatives help to ensure sufficient oil and gas supply within a changing hydrocarbon landscape.

Enhanced Oil Recovery (EOR)

PETRONAS is continuing its journey toward becoming a global leader in offshore Enhanced Oil Recovery (EOR) technology. Its first EOR-WAG production was achieved in September 2014. This was followed by the Gravity Assisted Simultaneous Water Alternating Gas (GASWAG), the first such EOR technique of its kind in the world that is scheduled for application in 2017. A third project, the Immiscible Water Alternating Gas (iWAG), will be ready for first injection in 2018.

The projects underwent thorough R&D and Field Development Plan (FDP) studies. A detailed Reservoir Monitoring and Surveillance Plan (RMSP) has also been put in place. These key activities led to translating and quantifying the robust amount of reserves to be produced.

Carbon Dioxide (CO_2) Management

PETRONAS has also made great strides in end-to-end solutions for carbon dioxide management in CO_2 fields. The process design for Front End Engineering Design for the K5 Field Strategic Technology Project is ongoing, with innovations to the design based on PETRONAS' sound knowledge of fundamentals in phase behaviours of high CO_2 natural gas.

Sustainability remains one of the key focus areas in all of PETRONAS' operations. It continuously strives to reduce CO_2 emissions through CO_2 Storage Studies and CO_2 Utilisation R&D programmes, in line with international environmental standards and regulations.

Contaminants Removal

A challenge in hydrocarbon production is the removal of impurities that pose significant health and safety issues, besides contaminating products. To clean up mercury content, PETRONAS developed HycaPure™ Hg, the first ionic liquid mercury adsorbent in the world, in collaboration with Queen's University of Belfast and Universiti Teknologi PETRONAS.

The revolutionary ionic liquid technology, which was the first Asian entry to clinch the prestigious Nicklin Medal at the Institution of Chemical Engineers (IChemE) Global 2013 Awards, removes the full range of elemental, inorganic and organic mercury species from gas streams in a single treatment at up to four times the adsorption capacity of conventional adsorbents.

Sustainability

PETRONAS is fully committed to sustainable initiatives. In 2015, a research programme in diversification of feedstock saw the development of a one-step process to convert biomass to Bio-Mono Ethylene Glycol (MEG) for Poly Ethylene Terephthalate (PET) production.

Results of PETRONAS' R&D efforts in sustainability made waves at the IChemE 2015 Awards, at both Malaysian and global levels. A programme on Palm-based Biopolyol Deployment won the Sustainable Technology Category of IChemE Malaysia 2015 Awards.

At the IChemE Global 2015 Awards, PETRONAS was highly commended in the same category for its programme on De-Acidification of High Acid Crude Oils. The proprietary process, developed jointly with Queen's University of Belfast, uses ionic liquids to remove naphthenic acids from high acid crude oils.

PETRONAS continues to look into ways to meet growing energy needs in a responsible and holistic manner, balancing economic, environmental and social considerations. Research efforts are purposefully directed towards developing sustainable and cleaner sources of fuel.

Advanced Materials

PETRONAS has developed a range of technologies composed of advanced composite materials, including the ProAssure™ range of products, which offer total solutions for upstream and downstream applications. Composite products offer many advantages such as design flexibility, lightweight quality, corrosion resistance and cost effectiveness.

The award winning ProAssure™ Clamp, the world's first pipeline repair clamp to be made of advanced composite material, is an effective leak containment solution for dry and underwater application. ProAssure™ Wrap is a novel pre-impregnated composite resin system for onshore and offshore pipeline repairs.

These and other solutions effectively prevent and contain oil leaks and spillage, playing a critical role in safeguarding the environment.

Moving forward, PETRONAS is actively conducting research in emerging technologies to develop better, superior materials with outstanding qualities. One example is a novel two-dimensional form of carbon that is the strongest known material, 207 times stronger than steel by weight, and impermeable to vapours and gases, making it a superior protective barrier for structures. PETRONAS is adding to the growing international body of research on this material.

Flow Assurance

Flow assurance challenges caused by deposition or erosion are resolved quickly to ensure that hydrocarbons are efficiently and economically transported from well to processing facilities. State-of-the-art technologies have been developed to address these issues. They range from formulations that effectively inhibit and remove scales and waxes, to engineering solutions that establish a safe production envelope via sand transport and erosion modelling.

PETRONAS Sand Solutions, an innovation for managing sand in oil and gas wells, achieved first gas in 2015 at Kepodang in Indonesia, successfully monetising the marginal field. More deployments of the solution have been planned for 2016 and work is in progress to develop improved, integrated Sand Solutions.

With all these technological advancements, hydrocarbons are being transported more efficiently and cleanly to shore.

Standard Engineering Solutions

An expanding suite of in-house engineering solutions were applied across the PETRONAS Group to enhance asset integrity, optimise operations and safeguard Health, Safety and the Environment (HSE). Standardisation offers benefits such as consistency in safety assurance, optimised life-cycle costs, and a coordinated approach in design integrity.

Capital projects undertaken by PETRONAS gain an edge through application of in-house technologies and standard engineering solutions. Key projects include the PETRONAS Floating LNG (PFLNG) vessels, Refinery & Petrochemical Integrated Development (RAPID) and the Sabah Ammonia Urea (SAMUR) plant.

Well and Facilities Technology

A number of technologies support smooth hydrocarbon production. Among them is the Sep-iSYS™ Low Pressure Production Unit (LPPU), a system tailored for boosting the pressure of production fluids from low pressure wells. An installation at West Lutong has been in operations since July 2015. Sep-iSYS™ offers many advantages – it is lightweight and compact, occupying only a small footprint, and is a self-contained system requiring minimal or no manning.

Other products include the In Field Liner (IFL™), a flexible reinforced liner for rehabilitation of hydrocarbon pipelines that is cost effective and quick and easy to install. Another innovation, Intelligent Circulation While Drilling (iCWD™), is an intelligent drilling circulation sub that significantly reduces drilling costs. It is being marketed globally and is expected to bring significant value to PETRONAS operations and to the drilling industry worldwide.

FUELS, LUBRICANT & BASE OIL PRODUCTS

PETRONAS leverages on Fluid Technology Solutions™ as the foundation in developing relevant and customised products and services offerings that meet the needs of the customers and the end-consumers. PETRONAS Lubricants International's (PLI) experience and successes in motorsports, as well as the strong legacy in lubricants technology, have allowed PETRONAS to fully understand the relationship between engine durability and performance and the functional fluids. The symbiotic nature of this relationship between engine/mechanical engineers and PETRONAS scientists is core to the PETRONAS Fluid Technology Solutions™.

With just over 20 years of experience in Formula One involvement and more than 100 years legacy in lubricants, the acquisition of FL Selenia in 2008 paved the way for PLI to establish its leadership in lubricants technology through the development of superior racing products for the MERCEDES AMG PETRONAS Formula One™ Team. PETRONAS applied the Fluid Technology Solutions™ approach in close collaboration with the Mercedes AMG engineers to co-develop not just the fuels, lubricants and functional fluids, but also to co-design the new 1.6L turbocharged direct-injection V6 hybrid Formula One engine to exploit maximum synergy between the engine and our products.

PETRONAS' custom designed lubricants (PETRONAS Syntium), functional fluids (PETRONAS Tutela: ERS coolant, hydraulic oil, and transmission oil) and fuel (PETRONAS Primax) that powered the Silver Arrows to success, winning the 2014 and 2015 Constructor's and Driver's Championship Award for Mercedes-Benz. This is the first time in 120 years of motorsport that Mercedes-Benz has consecutively won the Formula One World Constructor's Championship.

PETRONAS Syntium's °CoolTech™ is expertly engineered with strong oil chains to effectively absorb and transfer excessive heat out of the critical components of the engine. It delivers outstanding heat dissipation to prevent engine failure by protecting engine components from detrimental wear and tear even under high temperature; delay oil thickening by resisting the oil from oxidising at high temperature to ensure optimal lubrication to engine parts; and maintain engine performance by fighting harmful deposits build-up caused by excessive engine heat.

In industry lubricants, the Low Profile Low Flow Rate (LPLFR) dispenser was developed to improve the fuelling process for narrow body aircraft. The new dispensing equipment, which reduces both capital and maintenance costs, was installed at the Kuala Lumpur International Airport (KLIA) in 2015.

PETRONAS also developed a premium drilling product – MG3DF™, PETRONAS' first base oil product for drilling, which exhibits superior performance, including in extremely cold environments. A non-polluting alternative in oilfield drilling applications, its low viscosity provides efficient transmission of hydraulic power to the drill bit, resulting in energy savings. The fluid's very low aromatics and high flash point are added safety factors during drilling and storage.

In 2015, MG3DF™ was applied at numerous PETRONAS operations and it has recorded outstanding performance. It was the winner of the 2015 IChemE Malaysia Award in the Oil and Gas category.

PETROCHEMICAL PRODUCTS

PETRONAS' petrochemical arm, PETRONAS Chemicals Group Bhd (PCG) – the leading integrated chemicals producer in Malaysia and one of the largest in Southeast Asia – also provides innovative customer solutions.

Contributing to the renewable energy industry, a polyethylene glycol (PEG) cutting fluid formulation is used in the production of photovoltaic wafers from silicon ingots. This was successfully commercialised following a two-year co-development programme with a leading solar panel company in the region. CF45 gives greater cutting precision, minimum saw marks and minimum dirt staining on the wafers, all of which are critical requirements for high performance solar panels.

Besides that, a unique extrusion coating grade resin was successfully commercialised. The technology meets stringent food and safety regulations and is widely used in both food and non-food applications, ranging from medical packaging to industrial wrappings.

The coating's features include a suitable melt index, excellent adhesion on various substrates and outstanding barrier properties. It was introduced to domestic and regional markets in September 2014.

The growing stable of cutting-edge technologies reflect the spirit of innovation that cuts across PETRONAS operations both Upstream and Downstream.

OUR MARKET IN 2015 & OUTLOOK

2015 IN REVIEW

The year recorded weaker growth for the global economy at 3.1 per cent as compared to 3.4 per cent in 2014, following a similar growth trajectory in the emerging markets. A steep decline in energy and commodity prices coupled with the beginning of the US' tightening of its monetary policy were major contributing factors, with China's shift of focus towards a consumption and service-led economy also contributing to the slowdown.

The year in review ended with Dated Brent crude oil price plummeting to an 11-year low of USD36/bbl. For 2015, Brent crude oil price plunged by nearly 48 per cent to average at USD52/bbl, from USD99/bbl in 2014. Supply far exceeded demand, whilst OPEC's stand on retaining output volume and anticipation of Iran's return to the oil markets fueled more adverse sentiments that sustained the bearish market outlook.

The upstream sector took the first blow with an immediate reaction of CAPEX reduction. Project deferment and reprioritisation were evident across the global industry sphere resulting in a gush of OPEX and manpower rationalisation exercises. Maintaining profitability became the primary focus as companies pushed rigorous cost and cash prudent initiatives.

In the gas sector, Japan Korea Marker (JKM) LNG prices precipitously declined in line with lower oil prices. This trend was also mirrored in the UK National Balancing Point (NBP) and the US Henry Hub (HH) prices. Twin effects of oil-linked term contracts directly hit by weak oil prices and feeble fundamentals affected gas price levels.

In the petrochemical sector, the first half of the year had a more optimistic view with a rebound of ethylene prices in Southeast Asia amidst sentiments of tight regional supply. In June, recorded price hit its peak at USD1,414/tonne compared to USD922/tonne in February due to Northeast Asia's annual cracker maintenance needs as well as Southeast Asia's unplanned outage activities. However the upward trend did not sustain for the rest of the year with the ethylene price fall in September at USD815/tonne – the year's lowest, before recovering slightly, and settling at USD1,099/tonne, 22 per cent lower than in 2014.

OUTLOOK FOR 2016

Global economic growth is expected to improve only marginally to 3.2 per cent from 3.1 per cent in 2015 as legacies from last year's financial market volatility hamper a more robust pick-up in economic activities.

Supply growth from OPEC and non-OPEC countries is not likely to subside, setting reasonable expectations of a lower-for-longer price environment. Leading producers' leadership stand on market share preservation and Iran's return to the oil market may be the key themes for the overall industry sentiments in 2016.

The US economy is expected to sustain its growth momentum at 2.4 per cent, similar to the level of growth achieved in 2015. This is attributed to a combination of lower energy prices, reduced fiscal drag, strengthened balance sheets, and an improvement in the housing market. Whilst it was the US shale that had a hand in the global resource oversupply, its producers are however not insulated from the prolonged low price realities resulting in numerable players ceasing to sustain operations. US shale output is expected to decline which may translate into lesser activities in drilling of new wells. However, strengthening of oil prices may offset its impact as it would incentivise the comeback of the shale producers.

OUR MARKET IN 2015 & OUTLOOK

The Eurozone will continue its recovery in a more moderate pace with a projected growth at 1.5 per cent from the 1.6 per cent in the previous year.

Asia's powerhouses, Japan and China are taking contrasting paths in their economic reform strategies, moving forward. Japan is expected to continue its stimulus measures through quantitative and qualitative easing by the Bank of Japan. China, on the other hand, is maintaining its focus on boosting domestic consumption as opposed to investment and export-driven manufacturing sector. This shift has led to a slower demand growth of commodities. The growth in emerging markets are expected to be fragile following uncertainties and weak commodity prices.

Oil producing countries are expected to further cut and rationalise their national budgets on the back of a protracted low crude oil price environment. These cuts are expected to have a profound impact on the level of Government spending, particularly in the areas of health, education and public welfare in producing countries in the Middle East, as well as in Africa and South America.

OUR MARKET IN 2015 & OUTLOOK

The upstream sector may need more time to recover from 2015's market turmoil which will result in the deepening of CAPEX cuts as players have been conditioned to be more risk-averse.

In the LNG market, the Japan Korea Marker (JKM) price is expected to remain subdued over a protracted period of time over weak demand and robust supply from the US and Australia.

In the petrochemical sector, softening derivatives demand in China due to slower economic growth, as well as sluggishness in other emerging markets are expected to result in a lower global ethylene demand growth. As much as 8 mtpa of new ethylene capacity will be added in 2016, the largest since 2011, to a record 168 mtpa. These new additions are mainly driven by new plants in the Middle East and India, coal and methanol-based facilities in China and shale-backed expansions in North America. The higher supply, amidst softer demand will likely lend weak support to ethylene prices in 2016.

PERFORMANCE REVIEW

DATUK MANHARLAL RATILAL
Executive Vice President &
Group Chief Financial Officer

GROUP FINANCIAL PERFORMANCE

Group operational performance improvements helped to cushion the decline in crude oil prices for the financial year 2015.

REVIEW OF 2015 FINANCIAL RESULTS

In 2015, the Group recorded RM247.7 billion in revenue, a 25 per cent reduction compared to RM329.1 billion in 2014 primarily due to significantly lower average realised prices across all products. This is in line with the downward trend of key benchmark crude oil and LNG prices, namely Dated Brent and Japan Customs-cleared Crude (JCC). The lower oil price was partially offset by the effect of a favourable US Dollar exchange rate movement against the Ringgit, as well as higher crude oil and condensates, and petrochemical sales volume. The Ringgit weakened against the US Dollar from an average of RM3.27 in 2014 to an average of RM3.90 in 2015.

Dated Brent, which is the PETRONAS Group's main crude oil benchmark price, remained volatile throughout 2015 with an average of USD52/bbl, a decrease of 47 per cent from an average of USD99/bbl in 2014. Similarly, for LNG, the average single month JCC price was at USD63/bbl in 2015, a decrease of 42 per cent from USD109/bbl over the same period last year.

RM 247.7 billion Revenue

25%

Revenue declined by 25 per cent due to significantly lower product prices in line with the downward trend of benchmark prices

RM 20.8 billion Profit After Tax

56%

Profit After Tax was lower by 56 per cent in line with the significant decline in product prices partially offset by favourable exchange rate movement

RM 69.6 billion Cash Flow from Operations

33%

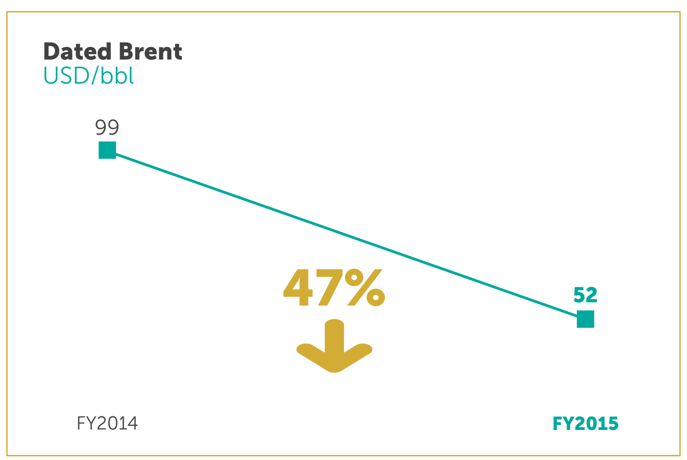
Cash Flow from Operations reduced by 33 per cent in line with the decrease in revenue

GROUP FINANCIAL PERFORMANCE

The decrease in revenue was slightly offset by improvement in the Group's operational performance in 2015 compared to 2014. The Group's total Upstream production increased by 3 per cent primarily contributed by production enhancement efforts and new production streams from both Malaysia and international operations.

In Malaysia, higher crude oil and condensates production were mainly driven by ramped up activities primarily offshore Sabah, production enhancements and new production stream located offshore Peninsular Malaysia. On the international front, the increase in production was mainly from Azerbaijan upon the finalisation of PETRONAS' acquisition of 15.5 per cent interest in Shah Deniz assets and new production stream from Indonesia.

The Group's Profit After Tax (PAT) of RM20.8 billion, was a 56 per cent decrease from the year before primarily due to the significant impact of lower realised prices in 2015 compared to 2014, as well as net impairment on assets amounting to RM19.0 billion mainly as a result of reduced crude oil price forecasts. This is partially offset by favourable US Dollar exchange rate movement against the Ringgit. Similarly, the Group's Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and net profit attributable to shareholders both decreased by 40 per cent to RM75.5 billion and 64 per cent to RM13.2 billion respectively.

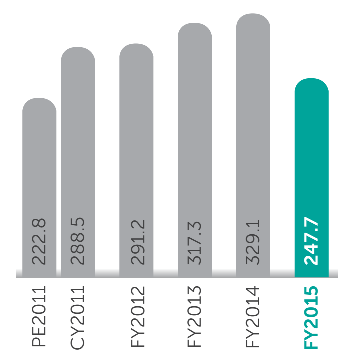


GROUP FINANCIAL PERFORMANCE

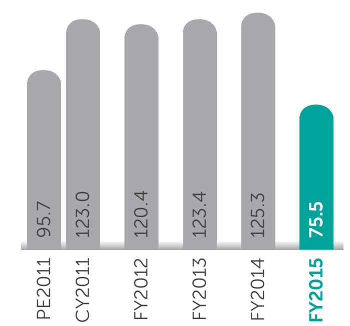
PETRONAS' KEY FINANCIAL INDICATORS

In RM billion

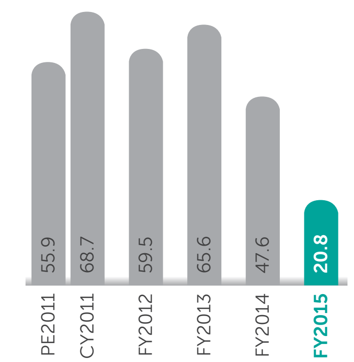
Revenue



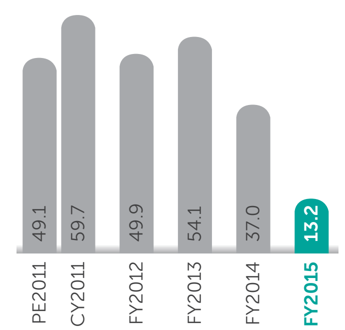
EBITDA



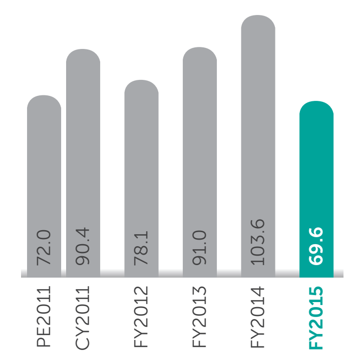
Profit After Taxation



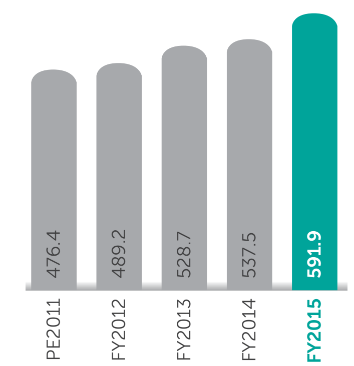
Net Profit Attributable to Shareholders



Cash Flow from Operations



Total Assets



Note:
PE2011 represents audited nine-month period from 1 April to 31 December 2011.

Financial Ratios	FY2015	FY2014	FY2013	FY2012	PE2011*
Profit After Tax Margin	**8.4%**	14.5%	20.7%	20.4%	25.1%
Return on Total Assets**	**5.9%**	14.1%	17.5%	18.0%	21.6%
Return on Average Capital Employed**	**5.1%**	11.9%	17.4%	16.8%	20.1%
Debt/Assets Ratio	**0.10x**	0.07x	0.08x	0.08x	0.11x
Gearing Ratio**	**16.0%**	12.6%	14.3%	15.1%	17.5%
Dividend Payout Ratio**	**70.2%**	53.6%	54.1%	57.0%	54.7%

** PE2011 was calculated based on annualised figures.*
*** Comparative figures have been restated to conform to the revised computation method.*

GROUP FINANCIAL PERFORMANCE

FINANCIAL POSITION AND LIQUIDITY

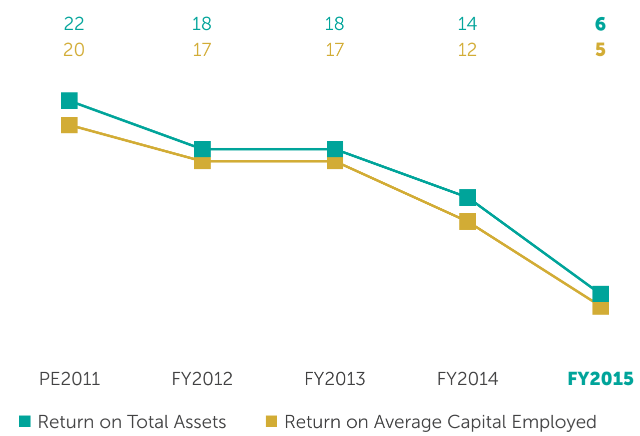
PETRONAS' financial position remained robust. As at 31 December 2015, the Group's Total Assets stood at RM591.9 billion, an increase of RM54.4 billion compared to 2014. Property, Plant and Equipment increased by 19 per cent reflecting continuous capital investments by the Group in domestic and international Upstream and Downstream projects to sustain future growth.

Cash, Fund and Other Investments stood at RM136.7 billion, slightly higher than the previous year of RM136.2 billion. Cash flow from operating activities decreased by 33 per cent to RM69.6 billion in 2015 primarily attributable to the significant decline in product prices. Other cash inflows for 2015 included a new issue of Global Medium Term Notes and additional Islamic debt securities issued in March 2015 of USD3.75 billion and USD1.25 billion respectively, and proceeds from the disposal of 10 per cent interest in Malaysia LNG Dua Sdn Bhd to Diamond LNG Malaysia Sdn Bhd, a wholly-owned subsidiary of Mitsubishi Corporation.

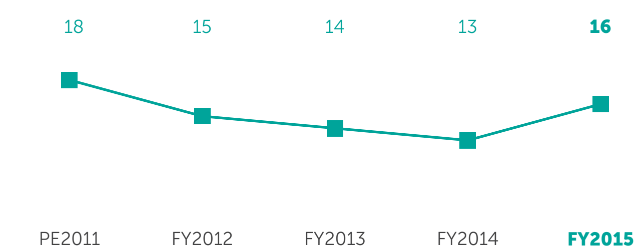
Capital investment spent in 2015 was RM64.7 billion, most of which was allocated for the Upstream segment to intensify efforts to develop new fields and enhance recovery from existing mature fields. The total capital investment spent in Malaysia was 54 per cent. Other cash outflows for 2015 included payment of dividends to PETRONAS' shareholder, the Federal Government of Malaysia and the Group's non-controlling interests; and repayment of borrowings.

The Group's Return on Total Assets (ROTA) and Return on Average Capital Employed (ROACE) for 2015 decreased to 6 per cent and 5 per cent respectively, as a result of lower profits recorded during the year. Gearing ratio increased to 16 per cent as at 31 December 2015 from 13 per cent as at 31 December 2014 following additional borrowings taken during the year.

Key Profitability Ratios
In percentage (%)



Gearing Ratio
In percentage (%)

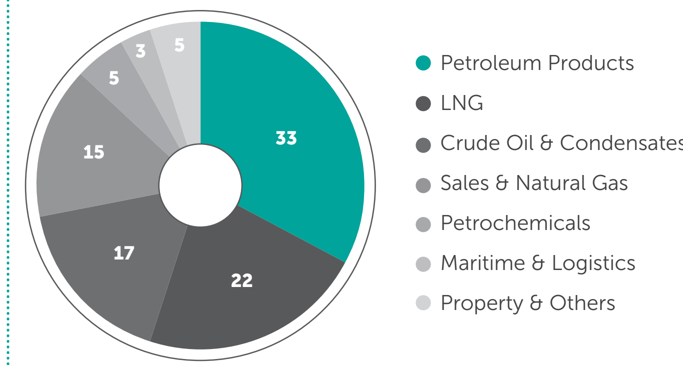


ROTA	**6%**
ROACE	**5%**
GEARING	**16%**

GROUP FINANCIAL PERFORMANCE

REVENUE BY PRODUCTS

In percentage (%)



Prices were impacted by global supply & demand imbalance

25% drop in Group's total revenue

PETROLEUM PRODUCTS
26% to RM80.6 billion, coupled with decrease in sales volume

LNG
28% to RM54.1 billion, despite higher trading sales volume

CRUDE OIL & CONDENSATES
37% to RM42.0 billion, despite higher sales volume

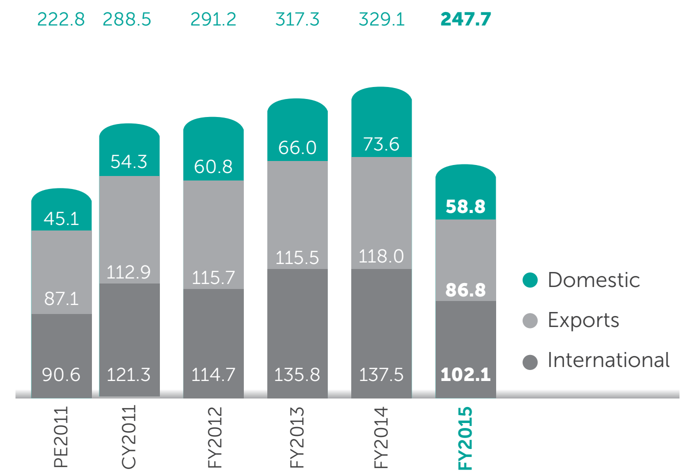
SALES & NATURAL GAS
7% to RM38.2 billion, as well as decrease in sales volume

PETROCHEMICALS
8% to RM13.2 billion, despite higher sales volume

Note:
% changes are in comparison to 2014

REVENUE BY GEOGRAPHICAL TRADE

In RM billion



Overall, the Group recorded lower revenue for all categories of its geographical trade in 2015 as a result of significantly lower product prices. Revenue from international operations remained the highest contributor to the Group's revenue, followed by exports and domestic operations.

Revenue for international operations which accounted for 41 per cent of Group's total revenue was RM102.1 billion, a decrease of 26 per cent from RM137.5 billion in 2014. The decrease was mainly due to significantly lower prices primarily on petroleum products and crude oil despite higher sales volume from crude oil.

Similarly, exports revenue decreased by 26 per cent to RM86.8 billion in 2015, translating to a 35 per cent share of the Group's total revenue. The decrease was mainly due to lower LNG prices.

Revenue recorded from domestic operations decreased by RM14.8 billion to RM58.8 billion in 2015 and accounted for 24 per cent of the Group's total revenue. The decrease was mainly due to lower revenue from petroleum products as a result of lower realised prices in 2015.

GROUP FINANCIAL PERFORMANCE

REVENUE BY GEOGRAPHICAL SEGMENTS

The Group's revenue by geographical segments is based on the geographical location of our customers.

MALAYSIA 1
27%
Sale of petroleum products and sales gas

JAPAN 2
14%
Sale of LNG

SOUTH AFRICA 3
9%
Sale of petroleum products

EUROPE 4
8%
Sale of sales gas

CHINA 5
7%
Sale of crude oil & condensates; and LNG

SINGAPORE 6
4%
Sale of petroleum products and crude oil & condensates

KOREA 7
4%
Sale of LNG

THAILAND 8
3%
Sale of crude oil & condensates; and natural gas

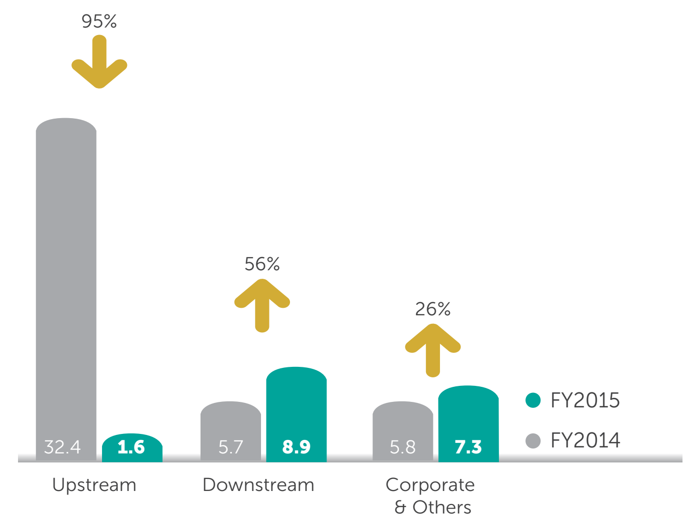
REST OF ASIA
11%
Sale of crude oil & condensates; petroleum products and LNG

REST OF THE WORLD
13%
Sale of crude oil & condensates; petroleum products and maritime & logistics business

GROUP FINANCIAL PERFORMANCE

SEGMENT EARNINGS

PAT by Business Segment
In RM billion



The Group has two reportable operating segments comprising Upstream and Downstream. Corporate & Others comprise primarily maritime and logistics business, property business and the central treasury function.

During the year under review, the Upstream segment recorded lower PAT of RM1.6 billion due to lower average realised prices for all products after recognising net impairment losses on upstream assets as a result of reduced crude oil price forecasts. The PAT was lower by 95 per cent compared to RM32.4 billion in the previous year and contributed 9 per cent to the Group's gross PAT in 2015.

The impact of lower prices was slightly offset by the improvement in the Upstream segment's operational performance with the delivery of first hydrocarbon from 11 greenfield projects, most of which were from international operations. Upstream oil and gas production, which represents Malaysia's production and PETRONAS Group's international equity production, increased by 3 per cent in 2015 to 2,290 kboe/d as compared to 2,226 kboe/d in 2014.

The Downstream segment recorded a higher PAT of RM8.9 billion in 2015, an increase of 56 per cent compared to RM5.7 billion recorded last year. This was mainly contributed by higher refining and marketing margins benefitting from lower feedstock prices as well as higher petrochemical products sales volume. For 2015, the Downstream segment contributed 50 per cent to the Group's gross PAT.

The PAT for Corporate and Others increased by RM1.5 billion to RM7.3 billion in the year under review mainly due to higher net foreign exchange gain on USD fund investments as a result of the weakening Ringgit against the US Dollar.

SEGMENT CAPEX

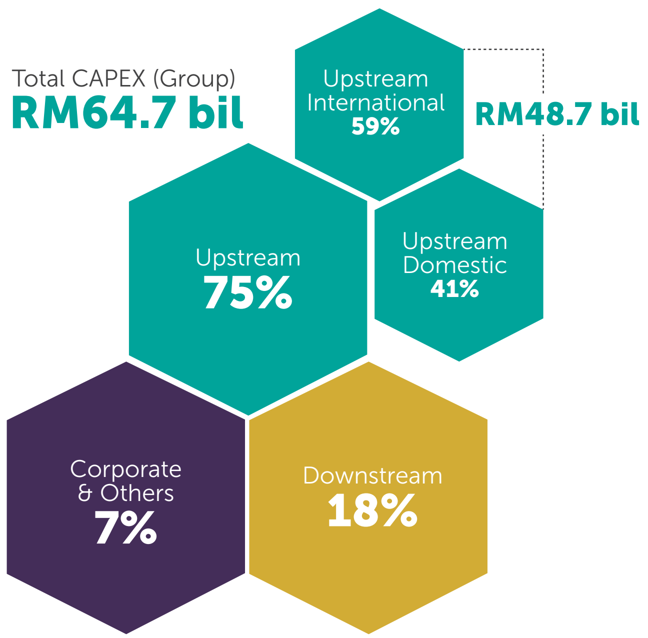
The year under review saw a marginal increase of the Group's capital investment at RM64.7 billion compared to RM64.6 billion in the previous year. The marginal increase was mainly due to higher investments in the Downstream segment, but partially offset by lower Upstream segment investments.

Following the extended and substantial reduction in crude oil prices, the industry saw a decline in the Upstream Capital Cost Index of close to 60 per cent between the second quarter of 2014 and the fourth quarter of 2015. This provided the Group with an opportunity to review and renegotiate contracts, and re-rank its portfolio of projects which resulted in the rephasing and deferment of some of its Upstream capital projects.

The Upstream segment accounted for 75 per cent or RM48.7 billion of the Group's total investments, a decrease of RM3.7 billion compared to 2014 which reflected the Group's action for capital investment reduction in response to the current environment. This year, nearly 86 per cent was invested in exploration, development, production and unconventional energy projects and the remaining 14 per cent was invested in

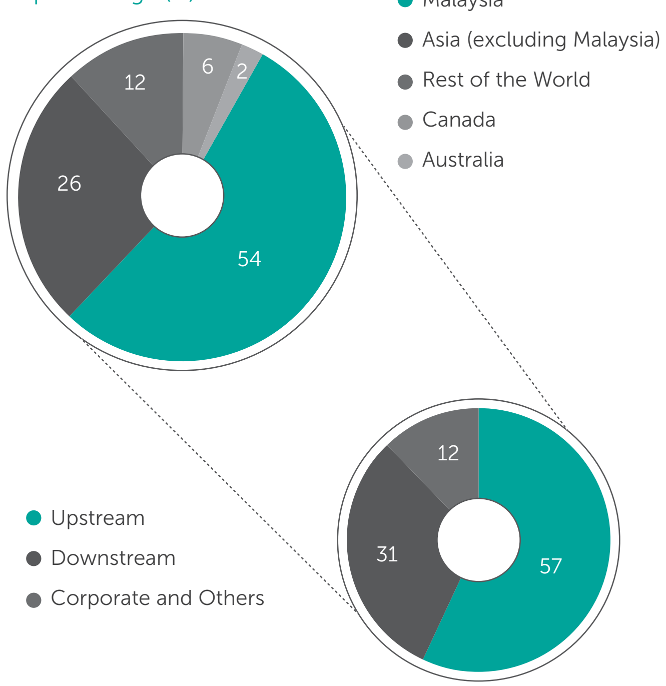
GROUP FINANCIAL PERFORMANCE

CAPEX Allocation 2015



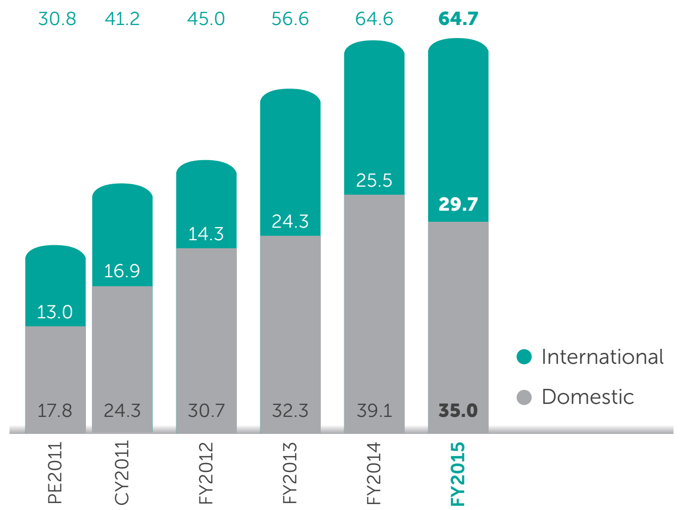
CAPEX by Geographical Segment 2015

In percentage (%)



Domestic and International CAPEX Breakdown

In RM billion



LNG projects. International capital investment of RM28.8 billion or 59 per cent were in key countries including Azerbaijan, Canada, Iraq, Turkmenistan and Australia; whilst domestic capital investment which amounted to RM19.9 billion includes Floating LNG projects, LNG Train 9 project in Sarawak, the North Malay basin pipeline and facilities in Terengganu; and NC3 offshore facilities project for Train 9.

Capital investment in the Downstream segment increased by RM2.9 billion to RM11.6 billion in 2015 mainly attributed to the Refinery and Petrochemical Integrated Development (RAPID) project in Pengerang, Johor and the Sabah Ammonia Urea (SAMUR) project in Sipitang, Sabah. These projects seek to strengthen the Group's position as a key Downstream player in the Asia Pacific's petroleum and petrochemical markets.

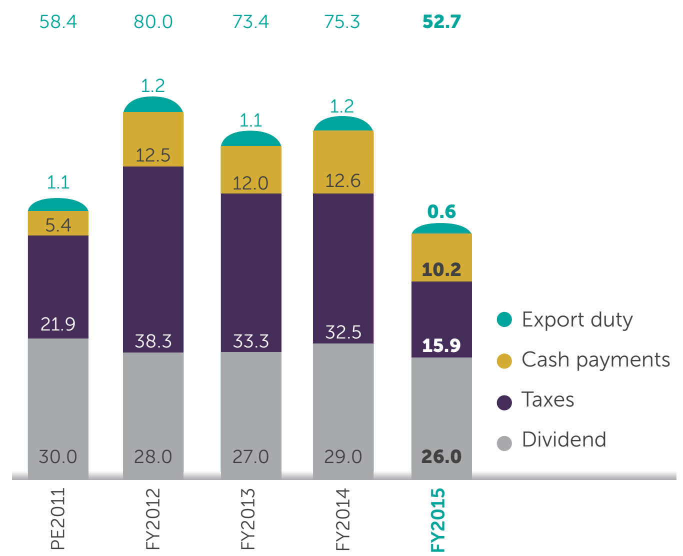
Total capital investment in Corporate & Others amounted to RM4.4 billion in 2015, 59 per cent of which was by MISC Berhad (MISC). This mainly comprised finance lease assets under construction and new vessels. The remaining capital investment was mostly by KLCC (Holdings) Sdn Bhd, particularly for acquisition of land for development.

GROUP FINANCIAL PERFORMANCE

CONTRIBUTION TO GOVERNMENTS AND REVENUE FORGONE

Components of Contribution to the Federal and State Governments of Malaysia

In RM billion

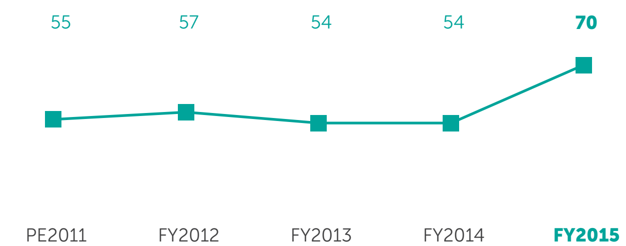


PETRONAS' contribution to the Federal and State Governments of Malaysia for the year ended 31 December 2015 amounted to RM52.7 billion, lower by RM22.6 billion as compared to 2014.

Dividends paid in 2015 of RM26.0 billion were in respect of 2014, which translated to a dividend payout ratio of 70 per cent. This amount is lower by RM3.0 billion as compared to dividends paid in 2014 of RM29.0 billion.

Dividend Payout Ratio

In percentage (%)



Revenue Forgone (in RM billion)	FY2015	FY2014	+/-	Cumulative total since 1997
POWER SECTOR	**5.5**	12.4	-56%	155.0
NON-POWER SECTOR (including industrial, commercial, residential users and NGV)	**5.4**	10.5	-49%	83.3
Total	**10.9**	**22.9**	**-52%**	**238.3**

In 2015, revenue forgone as a result of regulated pricing mechanism imposed on the supply of gas to Peninsular Malaysia's power and non-power sectors decreased by half to RM10.9 billion from the previous year. The decrease in revenue forgone was a result of the Government's subsidy rationalisation effort in which regulated sales gas prices during the year further increased for both power and non-power sector, coupled with lower contract prices which were in line with the decline in oil prices.

Since its inception, PETRONAS has contributed a total of RM934 billion to both Federal and State Governments and recorded revenue forgone amounting to RM238.3 billion since regulated gas prices came into effect in May 1997.

DATUK MOHD ANUAR TAIB
Executive Vice President &
Chief Executive Officer
Upstream Business

UPSTREAM PERFORMANCE

Low oil price notwithstanding, I am pleased to report on the commendable performance of the Upstream business. Where the agility of our committed workforce was tested, there too were new records made, realised through a well-oiled integrated portfolio and technological breakthroughs that will further strengthen our fundamentals into the future.

Upstream business will continue to focus on delivery of value to PETRONAS while balancing its long-term growth strategies. We improved our Health, Security, Safety and Environment (HSSE) performance in 2015. Regretfully, we recorded three fatalities, 23 lost time injuries and two fire incidents. There are valuable learnings from these incidents and we have taken the critical steps in implementing the lessons learnt in our global operations to mitigate the occurance of future incidents. We remain committed to HSSE, asset integrity and operational excellence in collaboration with our partners and suppliers to face a challenging future.

On the operation's front, the year saw the production of crude oil and natural gas grow by three per cent to 2,290 kboe/day. This is

UPSTREAM PERFORMANCE

UPSTREAM PERFORMANCE

impressive, considering that 2014 production was already five per cent higher than 2013. The year in review also saw total LNG sales of 30.17 million tonnes; a higher quantum than in 2014, driven largely by an increase in trading volume.

In ensuring long-term energy security, we have seen through 17 exploration discoveries worldwide which added another one billion boe to our resource inventory. A total of 11 projects achieved first production with one of the key projects, NC3 Central Processing Platform, located offshore Sarawak, delivering within the top 10 per centile on the schedule metric of the Independent Project Analysis (IPA) global benchmark.

Gas production from our Canadian subsidiary, Progress Energy Canada Ltd is on stream flowing 500 mmscf per day for consumption of the domestic Canadian market. Meanwhile, the integrated unconventional-shale-gas-to-LNG project, Pacific Northwest (PNW) LNG is currently undergoing the Canadian Environmental Assessment Agency (CEAA) assessment process. The Gladstone LNG project in Australia delivered its first commercial cargo to South Korea whilst the PETRONAS Floating LNG Satu and the Train-9 projects are progressing well with expected completion dates in mid-2016.

On the technology front, 2015 saw the commissioning of the world's first onshore Boil-Off Gas (BOG) re-liquefaction facility in our Malaysia LNG Complex in Bintulu, Sarawak. This technology would allow us to commercialise up to eight cargos per annum from BOG. In addition, we have also been able to extend the life of the Semarang field by another ten years to 2026, with the application of Enhanced Oil Recovery (EOR) technology.

On the development of the domestic oil and gas industry, we spearheaded a multi-year industry-wide programme called the Cost Reduction Alliance 2.0 (CORAL 2.0), aimed at driving cost efficiency through collaboration within the industry. A total of 24 Petroleum Arrangement Contractors (PACs) and more than 100 service providers were involved in 11 initiatives during the year, recording RM2.4 billion of cost reduction for the industry. The efforts generated through CORAL 2.0 are on track to position the industry on better footing to withstand the market challenges of today and beyond.

MD ARIF MAHMOOD
Executive Vice President &
Chief Executive Officer
Downstream Business

DOWNSTREAM PERFORMANCE

The performance for Downstream business in 2015 served as a testament of PETRONAS' strengths as a truly integrated oil and gas company. I am pleased to report the year's performance review which is an attribution mainly to the enhanced performance delivered at our plants, coupled with positive margins from our refineries and petrochemical product spread.

First, let me touch on our HSSE performance. We faced challenges and some setbacks during the 122.67 million manhours recorded in 2015. Regrettably, we recorded one fatality at the Project RAPID site in Pengerang, Johor. One fatality is one too many. We had four major fires and saw 20 Loss of Primary Containment (LOPC) throughout the year. I firmly believe that all accidents are avoidable and that it is our collective responsibility to ensure everyone arrives and returns home safely.

In operations, the year in review saw the Overall Equipment Effectiveness (OEE) of our refineries and petrochemical plants achieve a record high of 93.8 per cent, surpassing the world-class benchmark of 85 per cent. Highlights include the Terengganu refinery which recorded an overall performance score of over 90 per cent over the

DOWNSTREAM PERFORMANCE

DOWNSTREAM PERFORMANCE

past three years and the timely completion of the full acquisition of PETRONAS Penapisan Melaka Sdn Bhd (PP(M)SB) in early 2015 which helped unlock RM226 million in value of two refineries operating as a single entity.

Our ENGEN refinery in Durban, South Africa, which has been trending favourably over the last four years, boosted its performance by a further 4.3 per cent to finally record 99.3 per cent OEE for 2015. The combination of optimised operations and widening margins saw an increase of our gross refining margin by 78 per cent for the year, compared to 2014.

The Refinery and Petrochemical Integrated Development (RAPID) within PETRONAS' Pengerang Integrated Complex (PIC) had its first steel-cutting ceremony this year and is on track for completion by 2019.

The Sabah Ammonia Urea Project (SAMUR) Project in Sabah, slated to position PETRONAS as the second largest urea producer in the Southeast Asian region, is nearing completion and is expected to be fully operational in 2016.

PETRONAS' fuel and lubricants have been making steady advances in terms of establishing strong performance credibility on the race tracks and on the roads. In addition to being a title sponsor for the MERCEDES AMG PETRONAS Formula One™ Team, PETRONAS is also the Technical Partner for the engineering of customised fuel, lubricants and functional fluids (PETRONAS Fluid Technology Solutions™) for the same team which won the Formula One World Constructor's Championship for the past two consecutive years.

Technology is a differentiator in our pursuit of continued high performance and this year, we saw the launch of another fluid technology breakthrough, the PETRONAS Syntium with °CoolTech™ with superior abilities to combat excessive engine heat in maintaining optimum engine performance. This comes alongside the flagship PETRONAS Syntium 7000 engine oil, which is factory-fill for MERCEDES-AMG A45, CLA45, GLA45, GT and C63 road cars.

Meanwhile, our lubricants manufacturing, marketing and distribution arm, PETRONAS Lubricants International Sdn Bhd (PLISB) withstood the low sales volume by recording higher profitability mainly contributed by stringent cost control, lower base oil costs and the benefits of deferred tax in Italy.

Despite the decline in volume and revenue, our retail arm, PETRONAS Dagangan Berhad (PDB), worked through rigorous internal operation and cost optimisation measures such as supply and distribution management, as well as inventory day rationalisation, resulting in a PAT of RM794.6 million, an increase of 56% from RM508.2 million in the previous year.

PDB also launched the country's first RON 97 fuel in 2015 that meets the Euro 4M specification, ahead of the government-gazetted implementation date, and is now available in PETRONAS' retail stations.

Our endeavour continues with key learnings and best practices garnered from the previous year to strengthen operational and commercial excellence through safe, reliable and efficient facility operations, safe and timely project delivery and the ability to retain and grow product market share.

Downstream business will continue the efforts on both immediate and longer term goals for the shared success of PETRONAS.

ENGAGING WITH STAKEHOLDERS

INVESTING IN OUR PEOPLE

OUR PEOPLE

PETRONAS believes in building and developing its own pool of talents, who form the backbone of the Company.

The Company consistently and persistently grows and develops its human capital in line with industry and global HR practices as a critical and strategic aspect of its integrated business.

PETRONAS EMPLOYEES

Year	Employees
1974	18
1985	6,715
1995	13,136
2000	18,578
2005	33,944
2010	40,992
2011	43,266
2012	46,145
2013	49,193
2014	50,949
2015	53,149

PETRONAS WORKFORCE

Categories	2012	2015
Women	27%	**28%**
Non-Malaysians	20%	**20%**
< 35 years old	52%	**53%**

As at December 2015, PETRONAS recorded a staff strength of 53,149 people. PETRONAS has a relatively young workforce, with more than 50 per cent of its people aged below 35 years old.

In an industry that has traditionally been dominated by men, the women in PETRONAS' workforce make up 28 per cent of its total employees. As PETRONAS moves forward in an increasingly challenging industry, it aims to play a role in developing a highly sought-after, high-performing workforce regardless of gender.

Fully cognisant that performance is critical when operating in a challenging industry, the Company designs an attractive combination of elements that draw and retain fit-for-purpose talents. These include exciting job opportunities, competitive remuneration packages, meaningful awards and rewards as well as a conducive work environment. In addition, PETRONAS' steadfast attention to empowerment and standards of integrity in the workplace seeks to inspire employees to discharge their duties to the best of their abilities.

TALENT SOURCING AND RECRUITMENT

PETRONAS seeks and pursues talents who demonstrate best-in-class soft and hard skills. Combining global best practices as well as PETRONAS' own standards, its talent recruitment process is in line with both market and stakeholder expectations.

NEW EMPLOYEES

2014	2015	Percentage (%)
3,157	**3,560**	12.77% increase in 2015

INVESTING IN OUR PEOPLE

NEW EMPLOYEES (LOCAL VS INTERNATIONAL)

Local vs International	2014	2015	Percentage (%)
Local	2,905	**3,322**	14.35% increase in 2015
International	252	**238**	5.55% decrease in 2015

EMPLOYMENT VALUE PROPOSITION

For long-term sustainability, PETRONAS sees the vital need for a strong employment value proposition which will attract, motivate and retain talents in an ever-evolving industry.

The principles of PETRONAS' employment value proposition of Trust, Grow and Reward complements its Shared Values of Loyalty, Integrity, Professionalism and Cohesiveness.

GLOBAL TALENT STRATEGY

To harness an agile and competent workforce, PETRONAS' people must be able to excel in diversity as well as thrive under any condition. The next generation of talents are developed carefully, ensuring PETRONAS' resilience to weather and maneuver through future challenges. This is crucial to producing not only an adaptable workforce, but more importantly, give rise to a new generation of leaders who are able to deliver exceptional performance.

KEY TALENT SOURCING ACTIVITIES IN 2015

Business	Recruitment Drive
Upstream	• International Conference (Offshore Europe) • International recruitment drive (Dubai and Aberdeen) • Regional recruitment drive Malaysia LNG (MLNG), Sarawak Operations (SKO), Peninsular Malaysia Operations (PMO), Sabah Operations (SBO) • Virtual Career Fair • Recruitment for MLNG Dua Production Sharing Contract (PSC) Operatorship Transfer
Downstream	• Downstream Recruitment Community of Practice (RCOP), Curriculum Vitaes (CVs Market Place) • MEGA Career Fair • Local recruitment drive • International recruitment drive (Indonesia and Philippines via SKYPE, and ACHEMA 2015) • Targeted international recruitment drive via Rigzone Virtual Career Fair (Middle East and Asia)
Corporate	• Group Health, Safety & Environment Division (GHSED) Seeding recruitment drive

HIGHLIGHTS FOR 2015

- Winner of Malaysia's 100 Leading Graduate Employers (M100) and Sector winner for the Energy/Oil & Gas/ Utilities category
- Top 50 overall most preferred organisation for GRADUAN Brand Awards

PETRONAS continues to promote meritocracy and invests substantially in its people. Talents are identified and groomed early so that the Company is able to build a sustainable pipeline of future leaders.

PETRONAS respects and supports the rights of its union workers in accordance with union agreements, and in line with national laws and regulations. All five worker unions, namely Kesatuan Kakitangan Petroleum Nasional Berhad (KAPENAS) for Semenanjung Malaysia, Sarawak, Sabah, Wilayah Persekutuan Labuan and Kesatuan Pekerja-Pekerja Optimal Chemicals (M) Sdn Bhd (KEPKO), have been integral components in pursuing and accomplishing common goals for the Company and the unions.

In 2015, PETRONAS initiated negotiations on the Collective Agreement for 2016 to 2018. The Collective Agreement recognises the in-house unions as the sole governing body for all eligible permanent employees, excluding those with executive, managerial, confidential, and security functions in Peninsular Malaysia.

LEADERSHIP CAPABILITY DEVELOPMENT

Having the right leaders to helm talents becomes more crucial as the Company becomes more diversified in terms of locations, operations and workforce composition.

The list below outlines the major leadership capability development initiatives executed in 2015:

- Enhanced career management for technical professionals through implementation of a revised promotion and mobility guideline for technical professionals.
- Strengthened career management to reflect strategic organisational needs and long-term industry demands.
- Setting up of the EXCO People Development Committee to facilitate the mobility and promotion of senior staff across businesses and development of leaders to sustain and enhance organisational effectiveness.

WOMEN IN LEADERSHIP

The PETRONAS Leading Women Network (PLWN) was launched on 15 June 2015 by the President and Group Chief Executive Officer.

To date, women represent close to 30 per cent of the workforce, with 32 per cent of the women assuming technical positions. 30 per cent of PETRONAS' top talents are women, and 17 per cent hold Board seats across the PETRONAS Group. These figures are encouraging and shows how progressive PETRONAS has become since its establishment in 1974.

The PLWN aims to inspire leading women to accelerate and maintain passion and professionalism towards delivering high performance. It also aims to enable leading women to reap diverse opportunities in a collaborative work environment and complements existing avenues for women to connect.

The PLWN acts as a catalyst to operationalise the organisation's business strategy which is anchored on three pillars – Leader Development, Enabling Organisation and Peer Engagement which directly supports PETRONAS' Corporate Agenda and Global Talent Strategy.

Moving forward, PETRONAS will continue to adapt to the new realities of the oil and gas industry. The Company constantly refines and improves its workforce planning strategies and related implementations to meet growing business aspirations as well as fulfil the Company's obligations to nation-building endeavours.

EMPOWERING COMMUNITIES
WHERE WE OPERATE

PETRONAS' Corporate Social Investment (CSI) is one of the vital components of PETRONAS' Sustainability Framework and is defined as sustainable contributions made to positively impact the communities surrounding PETRONAS' areas of operations. The objective of CSI is defined in PETRONAS' mission statement namely that "we contribute to the wellbeing of society". Hence, the underlying philosophy is embedded in the concept of community empowerment in the areas of Education, Community Wellbeing & Development, and Environment. CSI is also an effective platform for PETRONAS and the community to collaborate and create sustainable initiatives which support the nation's growth.

Sustainability is part of PETRONAS' business philosophy. It entails carrying out business in a socially and environmentally-responsible manner, steered by good governance and ethical business practices. It is not merely compliance to regulations, but a sincere effort to secure the wellbeing of present and future generations.

EMPOWERING COMMUNITIES WHERE WE OPERATE

PETRONAS CSI FRAMEWORK

The PETRONAS CSI Framework was implemented in 2015 upon the completion of a comprehensive CSI rationalisation exercise from the preceding year. The Framework defines PETRONAS' key CSI thrusts where programmes are streamlined to focus on three areas namely Education, Community Wellbeing & Development, and Environment. This provides clearer definition of CSI programmes and most importantly, channels resources to these focused areas enabling better outcomes and impacts from the programmes.

PETRONAS VISION	A LEADING OIL & GAS MULTINATIONAL OF CHOICE			
PETRONAS MISSION	We are a business entity	Oil and gas is our core business	We add value to this resource	We contribute to the wellbeing of society
CSI PHILOSOPHY	Empower communities where we operate			
CSI FOCUS AREAS	Education	Community Wellbeing & Development	Environment	

EDUCATION

PETRONAS has embarked on a holistic approach in its Education CSI where the focus is on developing knowledge and capabilities to support nation building. Under this focus area, providing access to education and capability building to students, regardless of their status or ethnicity, is emphasised.

Education CSI is embedded in PETRONAS' Education & Learning value chain and is developed in a structured manner focusing on:

- Primary and secondary education
- Tertiary education
- Pre-employment programmes

Over the years, PETRONAS has contributed to education & learning through the establishment of learning institutions; sponsorships; knowledge transfer; inspiring youth to pursue science and engineering; as well as providing training to improve vocational, business and other skills.

PETRONAS' Learning Institutions

These learning institutions were developed to hone local and international talents with the knowledge and skills to support the oil and gas industry, as well as the nation.

Universiti Teknologi PETRONAS (UTP)

UNIVERSITI TEKNOLOGI PETRONAS

Institut Teknologi Petroleum PETRONAS (INSTEP)

INSTEP
INSTITUT TEKNOLOGI PETROLEUM PETRONAS

Akademi Laut Malaysia (ALAM)

ALAM
AKADEMI LAUT MALAYSIA
MALAYSIAN MARITIME ACADEMY

Education Sponsorships

The Company also invests in developing capable individuals with a high level of integrity and resilience:

- PETRONAS Education Sponsorship Programme (PESP) provides sponsorships for foundational studies until the first degree-level at prominent local and international universities in various fields and disciplines.
- The Vocational Institution Sponsorship and Training Assistance (VISTA) Programme focuses on technical and vocational skills development. Through VISTA, PETRONAS has collaborated with several government agencies to provide technical assistance to 20 vocational institutions.
- BUDI-PETRONAS is a programme where selected underprivileged students are sponsored to study at six MARA Junior Science College (MRSM) boarding schools in Sabah and Sarawak. The selected students receive yearly education allowances to pay for their school uniforms, text books, sports attire, learning aids and other basic needs.
- PETRONAS also invests in the Trust School Programme by Yayasan AMIR to drive sustainable school transformation, focusing on excellence and holistic education.
- Graduate Employability Enhancement Scheme (GEES) PETRONAS is a soft skills training programme for unemployed Malaysian graduates.

COMMUNITY WELLBEING AND DEVELOPMENT

PETRONAS aims to improve the wellbeing of society in its areas of operations. It emphasises specifically on improving health and safety, concentrating on education and awareness programmes as well as in uplifting the community by contributing to their socio-economic development.

Within this focus area, PETRONAS has two signature programmes namely All About Youth and Planting Tomorrow. The All About Youth programme focuses on youth development whilst Planting Tomorrow aims to improve the livelihood of poverty-stricken communities.

EMPOWERING COMMUNITIES WHERE WE OPERATE

Economic Empowerment Programmes in Indonesia

PETRONAS has contributed significantly towards the development of local communities in Indonesia, especially the Sampang and Gresik regency in the East Java Province, for over two years. In 2015, PC Ketapang II Ltd (PCKIIL) continued the Ksatria programme which focuses on entrepreneurship training for the communities in the area. To date, more than 40 participants have benefitted from the programme endorsed by SKK Migas, Indonesia's Upstream Oil and Gas regulator. Local governments in the regions of Sampang and Gresik also subscribe to the programme, which focuses on modules such as cultivation and storage of marine products, household furniture welding, hydroponic plant cultivation and diesel machine repair services.

ENVIRONMENT

PETRONAS believes that the protection and preservation of the natural environment is important for current and future generations. By focusing on biodiversity, the Company seeks to protect and preserve the natural environment via various conservation efforts.

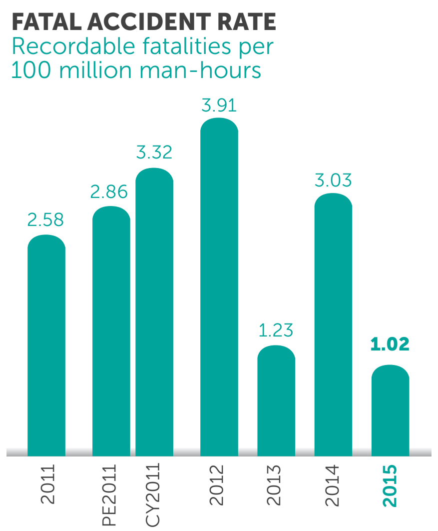
Amongst the environment-related programmes that PETRONAS is involved in are the Imbak Canyon Conservation Area (ICCA) and the development of the Imbak Canyon Studies Centre (ICSC). Over the years, PETRONAS has contributed RM83 million for the conservation of Imbak Canyon and the construction of ICSC as a centre of learning in biodiversity conservation, targeted for completion in 2016.

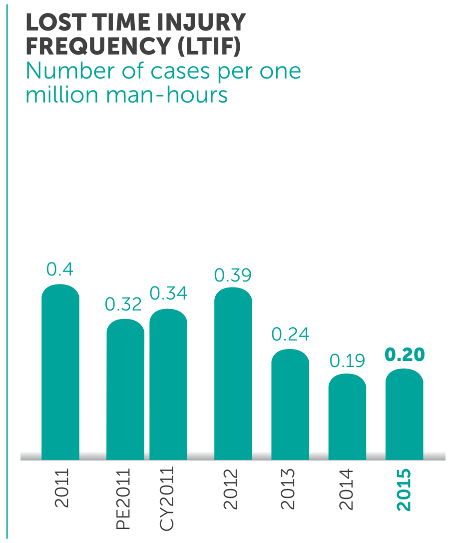
UPHOLDING HEALTH, SAFETY & ENVIRONMENT, AND SUSTAINABLE DEVELOPMENT

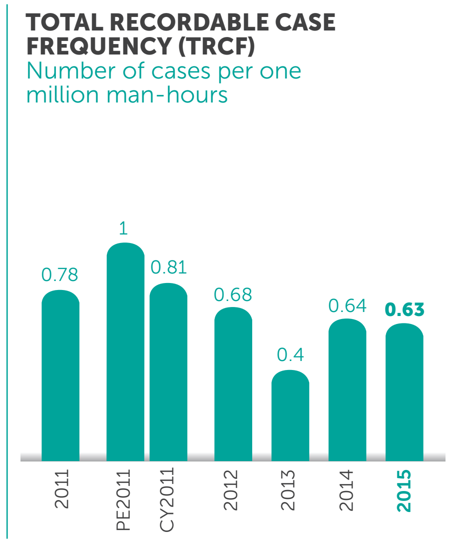
HSE PERFORMANCE

During the period under review, PETRONAS recorded a reduction of 66 per cent in Fatal Accident Rate. Sadly, four fatalities were recorded during the year.

Health, Safety and Environment (HSE) performance is a key agenda at the PETRONAS Board and EXCO (now the Executive Leadership Team). PETRONAS continues to improve its HSE performance through well-established frameworks, processes and tools, complemented by programmes to instill the HSE mindset in employees and contractors.







HSE GOVERNANCE

PETRONAS' HSE Policy is supported by the PETRONAS HSE Management System and the HSE Mandatory Control Framework (MCF). Efforts to strengthen HSE governance in 2015 included:

- **HSE in Projects**

  HSE elements were strengthened in the development stage and throughout the project lifecycles. Reviews including Hazards and Operability (HAZOP) Studies, Fire Safety Adequacy Review, 3D Model Review and Fire Safety Design Philosophy Review, Environmental Social and Health Impact Assessment (ESHIA), and Human Factors Engineering were conducted to ensure risks are adequately managed.

- **Process Safety**

  PETRONAS continued to enhance existing process safety implementations following thorough performance review analysis and promoted efforts to strengthen the operating discipline, and improve overall process safety performance across the Group.

- **HSE Enterprise-wide System**

  Stewardship, Health, Information and Environment Linked Database (SHIELD) further integrated HSE risk management practices across the Group.

  SHIELD kicked off with three work areas in 2014, namely Occupational Health, Industrial Hygiene and Product Safety, covering Employee Medical Records, Health Risk Assessment and the consolidation of all PETRONAS product Safety Data Sheets (SDS). Wave 1 of its roll-out, was successfully executed and completed in March 2015 with deployment across five operating units in Malaysia. Wave 2 followed, which saw the deployment of SHIELD at nine additional operating units.

- **Product Stewardship**

  In 2015, all PETRONAS' products were in compliance with Malaysia's Occupational Safety and Health (Classification, Labelling and Safety Data Sheet of Hazardous Chemicals) Regulations 2013, or better known as CLASS Regulations 2013. In 2015, over 163 product SDS for all PETRONAS-manufactured products were made available in English and Malay languages, accessible at https://sds.petronas.com.my.

  PETRONAS continues to comply with international product-specific regulations such as the European Union's Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH). New and emerging chemical regulations are being screened proactively to put in place adequate measures, as required.

OCCUPATIONAL HEALTH

PETRONAS conducted risk identification, health surveillance, assessment of fitness for work, management of fatigue, and communicable diseases, amongst others, to manage and mitigate health risks. Collectively, these requirements are applicable across the Group, including projects.

- **Maintaining a Healthy Workforce**

  Health promotion activities were aimed at enhancing employee health awareness through voluntary health screenings and other programmes to promote knowledge on lifestyle, non-communicable diseases and mental wellness.

- **Travel Health**

  Travel Health management was streamlined in 2015 with the introduction of a Travel Health Management service. The service will be available through a dedicated travel website by an appointed service provider giving employees access to travel health advisories, alerts, 24-hour medical advice, outpatient and hospital admission assistance, and medical emergency support, including Medical Evacuation (Medevac) and repatriation during emergencies.

HSE CAPABILITY DEVELOPMENT

HSE fundamentals were incorporated in all PETRONAS technical training programmes. During the year under review, three new areas of specialisation, namely operation safety, industrial hygiene and occupational health were introduced in our Technical Trade Specialist (TTS) Framework.

CRISIS PREPAREDNESS

Emergency response exercises were conducted at identified facilities to ensure optimal readiness in managing potential incidents. These included large-scale exercises involving several stakeholders.

HSE ASSURANCE

During the year under review, a total of nine HSE Tier-3 Assurance exercises were conducted covering domestic and international operations. The findings were deliberated at various management levels of the respective businesses and ultimately presented to the PETRONAS Board Audit Committee.

SUSTAINABLE DEVELOPMENT

Sustainable Development to PETRONAS means meeting the world's growing energy needs in a responsible manner by balancing the economic, environmental and social needs of stakeholders. This is to ensure continued growth and success for the benefit of present and future generations in its areas of operation.

Guided by the Corporate Sustainability Framework, PETRONAS undertook several initiatives in 2015 to better manage environmental and social impacts arising from operations.

- **Climate Change**

  PETRONAS duly recognises its corporate responsibility as a key player in the global energy sector to balance climate change risks while sustainably producing affordable and reliable energy. The Company continuously enhances its greenhouse gas (GHG) data accounting management practices.

UPHOLDING HEALTH, SAFETY & ENVIRONMENT, AND SUSTAINABLE DEVELOPMENT

- **Water Management**

  PETRONAS adopted solutions to reduce fresh water consumption at its operations, enhanced Water Management Guidelines and assessed water risks as 3R (reduce, re-use and recycle) programmes continued, particularly, at Downstream facilities.

- **Social Performance**

  PETRONAS views Social Performance as a means to manage impacts arising from its areas of business as well as to contribute to society in a responsible manner.

  The Company identifies our social risks and has put in place adequate systems and processes to manage these risks to minimise any impact from operations on stakeholders.

  Social Risk Assessments (SRAs) were carried out at selected local and international operations to identify, analyse and manage potential impacts arising from business activities.

Human Rights

The PETRONAS Human Rights Commitment was launched on 20 October 2015. The Commitment states "PETRONAS is committed to respecting internationally-recognised human rights in areas of its operations, complying with its Code of Conduct and Business Ethics, and all relevant legal requirements". It also complements the Anti-Bribery and Corruption (ABC) Policy and Whistleblowing Policy.

Employees of the PETRONAS Group, its contractors, subcontractors and any third parties operating within PETRONAS' premises or performing work and/or business for or on behalf of PETRONAS are required to abide by the Commitment.

During the year under review, Human Rights Due-Diligence and Grievance Mechanism Guidelines were established to facilitate the systematic implementation of the Commitment across the Group.

OUR ACHIEVEMENTS

CORPORATE MILESTONES

1974-1984
THE FIRST 10 YEARS

A pioneering decade of remarkable firsts, PETRONAS began its exciting journey in the oil and gas industry, changing the course of an entire nation. With immense potential, PETRONAS paved its way boldly ahead.

1974
PETRONAS was incorporated on 17 August under the Malaysian Companies Act 1965 and reported directly to the Prime Minister.

With only 18 personnel, PETRONAS operated out of the Prime Minister's Department at Jalan Dato' Onn, Kuala Lumpur.

PETRONAS signed its first Production Sharing Contract (PSC) with Sarawak Shell and Sabah Shell, a process which took two years involving regular, intense and sometimes bitter conflicts. The PSC replaced the Concession system, giving PETRONAS greater control over petroleum resources and its development.

1978
Malaysia LNG was incorporated with its first plant located in Bintulu, Sarawak, paving the way for Malaysia to enter the world of LNG trading. The first shipment was delivered to PETRONAS' long-time customer, Japan.

1978
Not content with being just an operator, PETRONAS established PETRONAS Carigali Sdn Bhd to actively embark on exploration and production activities.

PETRONAS made history through the drilling of its first appraisal well – Duyong gas field – and its first oil discovery at the Dulang oil field.

1979
A global oil crisis hit Malaysia in the form of diesel shortage. To help the nation, PETRONAS began operating three skid-tank stations, selling kerosene and diesel in Kuala Lumpur and Petaling Jaya.

1980
PETRONAS went downstream with the incorporation of ASEAN Bintulu Fertilizer Sdn Bhd.

The establishment of PETRONAS Dagangan Berhad was inevitable. Some skeptics said "these characters will be lucky if they achieve one station a year". PETRONAS proved them wrong. Today, PETRONAS has over 1,000 stations throughout Malaysia.

PETRONAS implemented the three-phase Peninsular Gas Utilisation (PGU) project to supply natural gas to power, industrial and commercial sectors throughout Malaysia.

1981
PETRONAS set out to establish several learning institutions namely Petroleum Industrial Training Institute (now known as INSTEP), Akademi Laut Malaysia, PETRONAS Leadership Centre, Universiti Teknologi PETRONAS and Kimanis Training Centre.

1981
PETRONAS' first service station began operations in Taman Tun Dr Ismail, Kuala Lumpur on 1 July.

CORPORATE MILESTONES

CORPORATE MILESTONES

1985-1999
A DECADE OF DEVELOPMENT AND MORE

With the seeds of growth firmly sown, PETRONAS was faced with a new challenge – to progress and expand its presence by exploring new opportunities across the oil and gas value chain.

1989
PETRONAS' Shared Values was launched by the then President, Tan Sri Datuk Azizan Zainul Abidin. These Shared Values – Loyalty, Integrity, Professionalism and Cohesiveness – remain an integral component of the PETRONAS Group of Companies.

PETRONAS' international venture into Vietnam marked the beginning of its globalisation journey, thanks to the pioneering spirit of its leaders, and to its inherent spirit of adventure.

1992
A groundbreaking event for PETRONAS Twin Towers. With one of the world's deepest foundations at 120 metres, the Twin Towers designed by Cesar Pelli remains as the tallest twin towers in the world.

1994
The listing of two subsidiaries, PETRONAS Dagangan Berhad and PETRONAS Gas Berhad on KLSE.

1994
PETRONAS made its first discovery in the Ruby oil field, Vietnam. This achievement spurred it on to become a major player in the international oil and gas arena.

1995
PETRONAS sponsored the Red Bull Sauber PETRONAS F1 Racing Team which gave an opportunity for the Company's engineers to be stationed in Hinwill, Switzerland, for transfer of technology and know-how.

PETRONAS launched its 100 per cent synthetic lubricant, PETRONAS Syntium, developed as a performance lubricant for the Sauber PETRONAS F1 Racing team.

1996
PETRONAS acquired a 30 per cent interest in Engen Ltd, South Africa in 1996. Two years later, it acquired the remaining 70 per cent interest, making Engen a fully-owned subsidiary of PETRONAS.

1996
PETRONAS overseas foray included Sudan, where it participated in the development of oil in the Muglad Basin.

1996
PETRONAS introduced the first Malaysian natural gas prototype taxi, the Enviro 2000, which was officially launched in **1998**. Today, PETRONAS has 120 stations equipped to sell natural gas.

1999
The PETRONAS Twin Towers was officially opened by then Prime Minister, YAB Tun Dr Mahathir Mohamad.

CORPORATE MILESTONES

CORPORATE MILESTONES

2000-2015
THE PROGRESSIVE YEARS

A period of extensive integration and innovation, PETRONAS delivered breakthrough milestones and technological advancement, cementing its significance and maintaining its reputation among the top players in the global oil and gas arena.

Introduced the revolutionary new generation petrol, PRIMAX. It was a technological breakthrough, in line with the Company's effort to continuously add value to its array of products and services.

2001
PETRONAS' world-scale integrated chemical complex opened in Gebeng, Pahang, encompassing 150 hectares of 12 plants producing acrylic monomers, oxo products and butanediol. The combined capacity of the plants is at more than 1 million tonnes per year.

2001
Comprising three LNG plants, the PETRONAS LNG complex in Bintulu, Sarawak, is one of the world's largest producers of LNG at a single location.

2001
PETRONAS introduced "A Vision Realised – The Transformation of a National Oil Corporation" written by Datuk Dr Paddy Bowie, documenting PETRONAS' 25 years of impressive development.

2002
The PETRONAS Petroleum Industry Complex (PPIC) was opened. Comprising 41 installations and support plants, PPIC was conceptualised and developed as an integrated world-class complex housing a number of world-scale petroleum-based manufacturing facilities.

2005
The Sabah-Sarawak Integrated Oil & Gas Project (SSIOGP) is another large-scale integrated project by PETRONAS to harness the oil and gas resources offshore Sabah. Comprising three offshore fields, two onshore projects, two downstream projects and a training centre, the project is set to transform the landscape of Sabah's oil and gas industry and provide opportunities to Sabahans.

2011
PETRONAS conceived the idea of the Risk Service Contracts to encourage the development of marginal fields. To date, four RSCs have been awarded.

2011
PETRONAS announced its new project, the Refinery and Petrochemical Integrated Development (RAPID) – greater in scale and scope compared to Kertih, Melaka and Gebeng complexes combined. RAPID will produce differentiated and specialty chemicals.

2012
Malaysia's first deepwater oil discovery at the Kikeh field, offshore Sabah. Kikeh's Floating Production Storage and Offloading (FPSO) system is also Malaysia's first, and was constructed at over 7.2 million man-hours with zero Lost Time Injury.

CORPORATE MILESTONES

CORPORATE MILESTONES

2012
Malaysia's first LNG re-gasification terminal was successfully completed in Sungai Udang, Melaka. Considered an engineering feat by the industry, the achievement would not have been possible if not for the dedication and commitment of its staff.

2014
It took 14 months of grueling hard work and commitment, but the end result was well worth it. Gumusut Kakap field, Malaysia's second deepwater field, achieved first oil production, with zero Lost Time Injury.

2014
PETRONAS ventures into unconventional resources through its investment in Gladstone LNG, Australia, and acquisition of Progress Energy in Canada. Both projects are expected to strengthen its unconventional strategy whilst cementing its position as a major global LNG player.

2014
Malaysia's largest enhanced oil recovery (EOR) project, TAPIS EOR will help PETRONAS augment its reserves and maximise recovery from its fields. It's the first large-scale EOR project in Southeast Asia which will help improve recovery for at least 20-30 years.

2014
The MERCEDES AMG Formula One PETRONAS team clinched the Constructor's Championship for the 2014 Formula One season, aided by PETRONAS' expertise in Fluid Technology Solution – with unparalleled fuel performance and value enjoyed by the F1 drivers as well as consumers on the road.

2014
The pilot programme of PETRONAS' All About Youth programme commenced at 60 schools in Sabah, Sarawak and Terengganu – aimed at empowering youths with a platform to showcase their ability and creativity. The initiative was a success and will be rolled out to 200 schools and 4,000 students nationwide.

2014
PETRONAS wins the fifth Asia's Best Employer Brand Awards, cementing the Company's position as one of the most reputable employers in the industry and region.

2014
PETRONAS Lubricants International introduced the industry's first 0W-20 heavy-duty diesel engine oil, the PETRONAS Urania Next 0W-20, in Turin, Italy. Developed for the new Euro VI generation engines, the new engine oil is a result of PETRONAS Lubricant International's long-term collaboration with Iveco, a leading global brand in truck and diesel engine manufacturing.

2015
PETRONAS pays tribute, and bids a fond farewell to Tan Sri Dato' Seri Shamsul Azhar Abbas, the outgoing President & Group Chief Executive Officer and welcomes Datuk Wan Zulkiflee Wan Ariffin as his successor – a long-serving member of the PETRONAS family.

CORPORATE MILESTONES

2015
PETRONAS reached a significant milestone in its upstream gambal oil or barrel operations in Indonesia with the first oil achieved from the Bukit Tua field. The field is expected to produce 3,700 barrels of oil per day (bopd) and 2 million standard cubic feet of gas per day (mmscfd) in its initial production stage.

2015
The official steel cutting of its second floating liquefied natural gas facility, the PETRONAS Floating LNG2 (PFLNG2) on 11 June at the Samsung Heavy Industries (SHI) Shipyard in Geoje Island, South Korea.

2015
The MERCEDES AMG PETRONAS Formula One™ Team once again clinched the Constructor's Championship title. The win highlighted PETRONAS' commitment in producing an intelligent approach to fluid requirements, maximising performance and ensuring the team's continued success along the season.

CORPORATE MILESTONES

2015
The President of Yuchai Group, Mr Yan Ping, together with the Group Managing Director & Chief Executive Officer of PETRONAS Lubricants International, Mr Amir Hamzah Azizan launched the Guangxi Nanning Yuchai PETRONAS Lube Co, Ltd Research & Development Centre (R&D) with the unveiling of a plaque at the site.

2015
The official keel-laying of its second floating liquefied natural gas facility, the PETRONAS Floating LNG2 (PFLNG2) at the Samsung Heavy Industries (SHI) Shipyard in Geoje Island, South Korea. The facility will make possible the liquefaction, production and offloading processing of natural gas in the Rotan field, 130 kilometers offshore Sabah with a capacity of 1.5 mtpa.

AWARDS & RECOGNITION IN 2015

1. MALAYSIA'S 100 LEADING GRADUATE EMPLOYERS 2015

PETRONAS was accorded the Graduate Employer of the Year Award

This Award highlights Malaysia's finest graduate employers focusing on specific recruitment processes.

PETRONAS emerged as a sector winner under the Energy/Oil and Gas Utilities

This Award is based on public polls to identify and recognise the most popular graduate recruiters.

2. MALAYSIAN INSTITUTE OF CHEMISTRY LABORATORY EXCELLENCE AWARDS 2015

This Award was designed to ensure laboratories demonstrate a strong commitment in providing quality and competent testing services in the fields of health, safety and the environment.

Winners/Companies

PETRONAS Chemicals Group Berhad

Areas of Testing

1. Water and Wastewater
2. Ethylene
3. Polyethylene

PETRONAS Chemicals Methanol Sdn Bhd

Areas of Testing

1. Methanol
2. Water
3. Gas
4. Environmental Samples

PETRONAS Chemicals MTBE (M) Sdn Bhd

Areas of Testing

1. Polypropylene
2. MTBE and Propylene
3. Water
4. Catalyst

PETRONAS Gas Berhad

Areas of Testing

1. Gas
2. Water
3. Wastewater

PETRONAS Penapisan (Melaka) Sdn Bhd

Areas of Testing

1. Petroleum
2. Water

PETRONAS Penapisan (Terengganu) Sdn Bhd

Areas of Testing

1. Petroleum
2. Petroleum Products
3. Aromatics – Benzene and p-Xylene
4. Utilities (Water)
5. Gas
6. Wastewater

PETRONAS Research Sdn Bhd

Areas of Testing

1. Petroleum Products (Crude Oil, Fuel, Polyolester)
2. Water (Drinking Water, Formation Water, Wastewater, Seawater)
3. Natural Gas

3. PRIME MINISTER'S HIBISCUS AWARD 2014/2015

This Award is a premier recognition honouring companies' committment towards upholding environmental protection.

Exceptional Achievement under the Chemical Industry

1. PETRONAS Chemicals Ammonia Sdn Bhd, Terengganu
2. PETRONAS Chemicals Derivatives Sdn Bhd, Terengganu

Notable Achievement Award

Malaysia LNG Sdn Bhd

Notable Achievement Award

PETRONAS LNG Complex (MLNG)

4. CHEMICAL INDUSTRIES COUNCIL OF MALAYSIA (CICM) RESPONSIBLE CARE AWARDS 2014/2015

This Award aims to recognise organisations' notable progress in implementing the Responsible Care's Six Codes of Management Practices in Malaysia.

Corporate Awards for the Six Codes of Management Practices Petrochemicals Category under the Chemical Industry

1. PETRONAS Chemicals Group Berhad
   – Two platinum, four gold, six silver and 14 merit awards

5. ROYAL SOCIETY FOR THE PREVENTION OF ACCIDENTS (ROSPA) OCCUPATIONAL HEALTH AND SAFETY AWARDS 2015

This prestigious national Award scheme recognises excellence in work-related health and safety performance by private and public sector organisations.

Gold Medal Award

PETRONAS Chemicals Ammonia Sdn Bhd

Gold Award

PETRONAS Penapisan (Melaka) Sdn Bhd
Malaysia LNG Sdn Bhd

Silver Award

PETRONAS Chemicals Methanol Sdn Bhd

Sector Award

Commended: PETRONAS Chemicals Ethylene Sdn Bhd and PETRONAS Chemicals Polyethylene Sdn Bhd

6. INSTITUTION OF CHEMICAL ENGINEERS (IChemE) MALAYSIA AWARDS 2015

This Award celebrates excellence, innovation and achievement in the chemical, biochemical and process industries.

Oil and Gas Award Category

Winner: MG3DF™ – "1st PETRONAS Drilling Fluid"

Sustainable Technology Award Category

Winner: "Palm-Based Polyester Polyols and Polyol Esters"

AWARDS & RECOGNITION IN 2015

7. GETENERGY AWARDS 2015

This global Award recognises the oil & gas companies which have made the most significant contribution to staff learning and development in the past 12 months.

PETRONAS' Technical Capability Development Programme (TCDP) won the Getenergy Awards 2015 under the "Learning at the Core" Category.

8. MERITORIOUS AWARDS FOR ENGINEERING INNOVATION (MEA) 2015

The MEA, organised by Hart Energy's E&P editors and now in its 44th year, is amongst the most distinguished engineering award programmes in the industry, recognising the world's best new tools and techniques for finding, developing and producing hydrocarbons.

The PETRONAS SmartCen™ won the 2015 Special Meritorious Award for Engineering Innovation under the Intelligent Systems and Components Category.

9. BRITISH SAFETY COUNCIL 56th INTERNATIONAL SAFETY AWARDS 2015

This Award acknowledges and celebrates the successes of organisations in the areas of health, safety and employee wellbeing.

PETRONAS Penapisan (Melaka) Sdn Bhd was accorded the Best Distinction Award.

10. MINORITY SHAREHOLDER WATCHDOG GROUP (MSWG) – ASEAN CORPORATE GOVERNANCE INDEX 2015 AWARD

This Award commends public listed companies which promote high levels of business transparency and notable corporate governance practices.

PETRONAS Chemicals Group Berhad received the Industry Excellence Award under the Oil and Gas sector category.

11. MALAYSIAN OCCUPATIONAL SAFETY AND HEALTH PROFESSIONAL ASSOCIATION (MOSHPA) OSH EXCELLENCE AWARDS 2015

This Award recognises industry players' outstanding achievements in implementing safety and health practices in the workplace.

KLCC Parking Management Sdn Bhd was accorded a Gold Award for its Parking Management Services.

12. NATIONAL ANNUAL CORPORATE REPORT AWARDS (NACRA) 2015

The Award recognises and highlights the importance of good financial reporting, not only to protect stakeholders' interest, but also to ensure the effective functioning of the capital market. In 2015, a new Award category on Inclusiveness and Diversity was introduced.

PETRONAS Dagangan Berhad received a Gold Award for Best Designed Annual Report.

PETRONAS Gas Berhad received the Industry Excellence Award under the Industrial Products and Technology category.

PAST AWARDS

MALAYSIAN INSTITUTE OF CHEMISTRY LABORATORY EXCELLENCE AWARDS 2014

This award is designed to ensure a laboratory's commitment to achieve excellence in providing quality and competent testing services pertaining to local legislation especially in the fields of health, safety and the environment.

Award Recipients

ASEAN Bintulu Fertilizer Sdn Bhd
- Gases
- Water
- Wastewater
- Urea

PETRONAS Chemicals Group Berhad
- Ethylene
- Water & Wastewater
- Polyethylene

PETRONAS Chemicals MTBE (M) Sdn Bhd/ POLYPROPYLENE (M) Sdn Bhd
- Polypropylene
- MTBE and Propylene
- Water
- Catalyst

PETRONAS Gas Berhad
- Gas
- Wastewater
- Water

PETRONAS Penapisan (Melaka) Sdn Bhd
- Petroleum
- Water

PETRONAS Penapisan (Terengganu) Sdn Bhd
- Petroleum
- Petroleum Products
- Aromatics - Benzene and p-Xylene
- Utilities (Water)
- Gas
- Wastewater

PETRONAS Research Sdn Bhd
- Petroleum Products (Crude oil, fuel, Polyol Ester)
- Water (Drinking Water, Formation Water, Wastewater, Seawater)
- Natural Gas

MALAYSIAN SOCIETY FOR OCCUPATIONAL SAFETY AND HEALTH (MSOSH) AWARDS

The annual award ceremony aims to recognise companies from various sectors that have performed exceptionally well in occupational safety and health aspects.

Gold Class I Awards (Oil & Gas Sector)
- PETRONAS Dagangan Berhad (PDB) received recognition for its Prai Fuel & LPG and Kertih LPG Terminals Operations Department's effort and commitment toward safety and health aspects.

PAST AWARDS

CHEMICAL INDUSTRIES COUNCIL OF MALAYSIA (CICM) RESPONSIBLE CARE AWARDS

Corporate Awards for the Six Codes of Management Practices (Petrochemicals Category)

The objectives of the CICM Responsible Care Awards are to promote greater awareness of the Responsible Care Programme and its principles and to give recognition to organisations that have made the most progress in implementing the Responsible Care's Six Codes of Management Practices in Malaysia.

PETRONAS Chemicals LDPE Sdn Bhd
- Distribution Code (Gold)
- Product Stewardship Code (Gold)
- Community Awareness and Emergency Response Code (Silver)
- Employee Health and Safety Code (Silver)
- Pollution Prevention Code (Merit)
- Process Safety Code (Merit)

BASF PETRONAS Chemicals Sdn Bhd
- Distribution Code (Silver)
- Pollution Prevention Code (Silver)
- Process Safety Code (Silver)
- Employee Health and Safety Code (Merit)

ASEAN Bintulu Fertilizer Sdn Bhd
- Distribution Code (Silver)
- Community Awareness and Emergency Response Code (Merit)
- Process Safety Code (Merit)

PETRONAS Chemicals Derivatives Sdn Bhd
- Process Safety Code (Gold)
- Distribution Code (Silver)
- Community Awareness and Emergency Response Code (Silver)
- Pollution Prevention Code (Silver)

PETRONAS Chemicals Fertiliser Kedah Sdn Bhd
- Community Awareness and Emergency Response Code (Gold)
- Pollution Prevention Code (Gold)
- Process Safety Code (Silver)

PETRONAS Chemicals Ethylene/Polyethylene Sdn Bhd
- Community Awareness and Emergency Response Code (Silver)
- Employee Health and Safety Code (Merit)

PETRONAS Penapisan (Terengganu) Sdn Bhd
- Pollution Prevention Code (Silver)
- Community Awareness and Emergency Response Code (Merit)
- Process Safety Code (Merit)

PETRONAS Penapisan (Melaka) Sdn Bhd
- Employee Health and Safety Code (Silver)
- Pollution Prevention Code (Merit)
- Community Awareness and Emergency Response Code (Merit)
- Process Safety Code (Merit)

PETRONAS Chemicals MTBE (M) Sdn Bhd/ POLYPROPYLENE (M) Sdn Bhd
- Employee Health and Safety Code (Gold)
- Pollution Prevention Code (Merit)

BP PETRONAS Acetyls Sdn Bhd
- Employee Health and Safety Code (Gold)
- Process Safety Code (Merit)

PETRONAS Chemicals Methanol Sdn Bhd
- Pollution Prevention Code (Merit)
- Process Safety Code (Merit)

PETRONAS Chemicals Ammonia Sdn Bhd
- Pollution Prevention Code (Merit)
- Process Safety Code (Merit)
- Employee Health and Safety Code (Merit)

PAST AWARDS

ROYAL SOCIETY FOR THE PREVENTION OF ACCIDENTS (RoSPA) OCCUPATIONAL HEALTH AND SAFETY AWARDS

Since 1956, RoSPA has organised this prestigious national award scheme to recognise excellence in work-related health and safety performance by private and public sector organisations.

The scheme is based on an assessment of a broad portfolio of evidence on the level of development and performance of an entrant's occupational health and safety management system, and also takes into account the entrant's reportable accident rate and enforcement experience.

Sector Awards: Chemical Industry (Highly Commended)
- PETRONAS Chemicals Ammonia Sdn Bhd

Gold Awards

RoSPA Gold Awards winners have achieved a high level of performance, demonstrating well-developed occupational health and safety management systems and culture, outstanding control of risk and low levels of error, harm and loss.

- PETRONAS Chemicals Ethylene/Polyethylene Sdn Bhd
- PETRONAS Penapisan (Melaka) Sdn Bhd

Silver Awards

RoSPA Silver Award winners have achieved a high level of performance underpinned by good management systems, deliver consistent improvements and are working towards the level of excellence required for a Gold Award.

- PETRONAS Chemicals Methanol Sdn Bhd

NATIONAL EXCELLENCE AWARDS FOR OCCUPATIONAL SAFETY AND HEALTH (OSH) 2014

Malaysia LNG Sdn Bhd brought home two awards in the following categories:
- 'Storage Facilities' recognising MLNG's excellent management
- 'Chief Executive Officer' recognising MLNG's Vice President and Chief Executive Officer Zakaria Kasah's leadership in promoting Occupational Safety and Health within and outside of the organisation.

BRITISH SAFETY COUNCIL 56TH INTERNATIONAL SAFETY AWARDS

The International Safety Awards is an annual event that celebrates the success of organisations committed to the health, safety and wellbeing of their employees. Year 2014's award was participated by 524 organisations from 15 countries.

- PETRONAS Penapisan (Melaka) Sdn Bhd won the Distinction Award for demonstrating its strong commitment to maintaining the health, safety and wellbeing of its employees through good health and safety management.

PAST AWARDS

MSWG – ASEAN CORPORATE GOVERNANCE INDEX 2014 AWARD UNDER THE INDUSTRY EXCELLENCE CATEGORY FOR THE OIL & GAS SECTOR

The award is presented to companies to encourage and recognise public-listed companies in their respective industries with the best corporate governance practices including transparency and performance.

- PETRONAS Gas Berhad won the award for its corporate governance disclosure in its annual report.

CHIEF MINISTER'S ENVIRONMENTAL AWARD 2014

The award recognises large and small organisations as well as municipal councils for their efforts in conserving and preserving the environment.

- Malaysia LNG Sdn Bhd won in the category of Oil and Gas (Large Industries) for its efforts in conserving the environment during their day-to-day operations and in championing the conservation of marine life through the MLNG BEACON Project.

BEST CORPORATE SOCIAL RESPONSIBILITY AWARD (CSR) INITIATIVE IN 2014

- PETRONAS received an award for its activities and contributions in Garraf, Iraq at the Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC) 2014.

HUMAN RESOURCES DEVELOPMENT AWARD 2014

The highest national recognition in the field of Human Resources Development awarded by Pembangunan Sumber Manusia Bhd (PSMB) under the Ministry of Human Resources of Malaysia.

- Malaysia LNG Sdn Bhd won in the category of Large Employers (Manufacturing), a testament to its active involvement in developing human resources.

COOPERATIVE RESEARCH CENTRES ASSOCIATION (CRCA) AWARDS FOR EXCELLENCE IN INNOVATION

This award recognises outstanding examples of the transfer of research results, knowledge and technologies that have been developed for a wide range of users of research, including the community, companies and government agencies.

- PETRONAS ProAssure™ Clamp won the Award for Excellence in Innovation from the Cooperative Research Centres Association (CRCA) of Australia.

PAST AWARDS

ASIA'S BEST EMPLOYER BRAND AWARDS

The Asia's Best Employer Brand Awards is jointly hosted by Employer Branding Institute, World HRD Congress, and Stars of the Industry Group, supported by CHRO Asia as strategic partner and endorsed by the Asian Confederation of Businesses.

The awards are designed, owned and executed by Employer Branding Institute, an organisation managed by professionals from various countries who share the same passion in human resources. The awards acknowledge more than 100 organisations across Asia that demonstrated excellence in building their brands and identities as employers of choice, visible through their human resource practices, policies and strategies, honouring exemplary work in employer branding in more than 20 Asian countries.

- PETRONAS won for its efforts and investment in enhancing human capital development and human resource practices, policies, and strategies. These efforts offer an appealing value proposition to increasingly diverse talent segments.

IET INNOVATION AWARDS 2014 BY INSTITUTE OF ENGINEERING AND TECHNOLOGY (IET)

The IET awards are held to recognise and celebrate the best innovations across the breadth of science, engineering and technology which have made or have potential to make dramatic improvements to modern society. It demonstrates the power of the imagination for engineers worldwide as they tackle economic and social challenges. In 2014, over 400 entries from 22 countries were received.

- PETRONAS Sand Solutions was recognised as one of the finalists for its Open Hole Stand Alone Screen (OHSAS) model-based engineering solution, for managing sand in the production of oil and gas. This model was based on a Computational Fluid Dynamics (CFD) simulation using PETRONAS' proprietary sand erosion correlations.

JEC EUROPE 2014 INNOVATION AWARD

Created in 1998, one of the goals of this innovation programme is to identify, promote, and reward the most innovative composite solutions worldwide.

- PETRONAS ProAssure™ Clamp won for the Oil & Gas category.

SIGNIFICANT EVENTS IN 2015

17 JANUARY

PETRONAS MOBILISES 450 STAFF VOLUNTEERS TO DABONG, KELANTAN

PETRONAS provided support to flood victims in Kelantan, Terengganu and Pahang by mobilising 450 of its staff to the remote town of Dabong in Kuala Krai, Kelantan. The staff helped to clean SK Dabong and distribute basic necessities to about 300 affected families in the nearby area.

1 FEBRUARY

MERCEDES AMG PETRONAS GETS BACK TO WORK WITH THE NEW F1 W06 HYBRID SILVER ARROW

The MERCEDES AMG PETRONAS Formula One™ Team unveiled its 2015 Formula One World Championship challenger, the F1 W06 Hybrid, ahead of the first day of pre-season testing at the Circuito de Jerez in Spain. Drivers Lewis Hamilton and Nico Rosberg revealed the seventh Silver Arrow to compete in the Formula One World Championship to the assembled media, with Nico then taking the wheel for the opening test session of the 2015 season at the Spanish circuit.

17 FEBRUARY

PETRONAS REFLECTS ON TWO DECADES OF VALUES AND TRADITIONS THROUGH ITS CHINESE NEW YEAR CAMPAIGN – 'THE REUNION'

PETRONAS launched its Chinese New Year campaign titled 'The Reunion', to honour values and traditions at their best, by reflecting on its most popular Chinese New Year communications in the past two decades.

19 MARCH

YUCHAI PETRONAS LUBRICANTS CO LTD LAUNCHES NEW STATE-OF-THE-ART RESEARCH & DEVELOPMENT CENTRE

The President of Yuchai Group, Mr Yan Ping, together with the Group Managing Director & Chief Executive Officer of PETRONAS Lubricants International, Amir Hamzah Azizan launched the Guangxi Nanning Yuchai PETRONAS Lube Co Ltd Research & Development Centre (R&D) with the unveiling of a plaque at the site.

21 MARCH

PETRONAS LAUNCHES PETRONAS SYNTIUM WITH °COOLTECH™

Delivering three key benefits through its outstanding heat dissipation, PETRONAS unveiled its PETRONAS Syntium with °CoolTech™ which has been formulated to fight excessive engine heat enabling drivers to explore reengineered experience of the new lubricant on roads.

22 MAY

PETRONAS ACHIEVES FIRST OIL FROM THE BUKIT TUA FIELD IN INDONESIA

PETRONAS reached a significant milestone in its upstream operations in Indonesia with the first oil achieved from the Bukit Tua field. The field is expected to produce 3,700 barrels of oil per day (bpd) and 2 million standard cubic feet of gas per day (mmscfd) in its initial production stage.

11 JUNE

NEW MILESTONE ACHIEVED WITH THE STEEL-CUTTING OF THE PETRONAS FLOATING LNG2

PETRONAS achieved another milestone with the official steel cutting of its second floating liquefied natural gas facility, the PETRONAS Floating LNG2 (PFLNG2) at the Samsung Heavy Industries (SHI) Shipyard at Geoje Island, South Korea.

17 JUNE

318 OUTSTANDING STUDENTS RECEIVE PETRONAS EDUCATION SPONSORSHIP WORTH RM100 MILLION

Education aid worth RM100 million under the PETRONAS Education Sponsorship Programme (PESP) was presented to 318 students to enable them to pursue tertiary education at top local and international universities.

SIGNIFICANT EVENTS IN 2015

1 JULY

PETRONAS CONTRIBUTES RM90 MILLION FOR CSR PROJECTS IN SARAWAK

PETRONAS contributed RM90 million to enhance education, community wellbeing and development as well as environmental conservation in Sarawak.

10 JULY

PETRONAS REAFFIRMS EFFORTS TO NURTURE SABAH YOUTHS AS FUTURE PROFESSIONALS

PETRONAS reiterated its commitment to support academic excellence and technical skills development amongst Sabah youths with the presentation of scholarships and education assistance to recipients of the PETRONAS Education Sponsorship Programme (PESP).

Under PESP, PETRONAS will support the students beginning from the foundation studies up to their first bachelors degree.

31 JULY

GALERI PETRONAS UNVEILS GILA-GILA ISSUE #777 – THE BEST OF GILA-GILA OVER 37 YEARS

Following the success of the LAGI-LAGI GILA-GILA exhibition at Galeri PETRONAS, a retro limited edition - Gila-Gila Special Issue #777 was put together by the cartoonists behind the iconic magazine, attracting some 28,000 people to the exhibition. The exhibition incorporated a special segment dedicated to the pioneers of cartoon art in Malaysia such as Mishar, Jaafar Taib, Zainal Buang Hussein, Azman Yusuf, Ujang and many more.

8 JULY

PETRONAS CONTRIBUTES RM3 MILLION TO SABAH EARTHQUAKE VICTIMS

PETRONAS contributed RM3 million to the State Disaster Relief Fund for victims of the earthquake that hit Ranau on 5 June 2015 that resulted in loss of lives, livelihood and damage to properties.

This contribution is in addition to the RM5 million that PETRONAS presented in aid of flood relief efforts carried out by the State Disaster Relief and Management Committee in April 2014.

12 SEPTEMBER

PETRONAS ENCOURAGES UNITY AMONGST MALAYSIANS WITH #tanahairku

PETRONAS celebrated Malaysia Day with the launch of #tanahairku aimed at promoting and strengthening social cohesion and unity in Malaysia, with the participation of street artists in Sabah, Sarawak and Johor. The campaign highlighted the common values that are shared among Malaysians.

SIGNIFICANT EVENTS IN 2015

15 SEPTEMBER

PETRONAS BRINGS TOGETHER OIL AND GAS INDUSTRY FOR SAFETY IN "SAHABAT MARITIM" PROGRAMME

Eight oil and gas companies signed a collaboration agreement with PETRONAS and the Malaysia Maritime Enforcement Agency (MMEA) to be part of the ongoing "Sahabat Maritim" safety outreach programme for fishing communities in Sabah and Labuan.

With this partnership, PETRONAS, along with Shell Malaysia, Murphy Oil, Hess, UMW Oil and Gas Corporation Berhad, ConocoPhillips Malaysia, Petrofac, REPSOL and SapuraKencana Petroleum will be working together with MMEA to educate fishermen about the safety implications of activities conducted close to offshore oil platforms in Sabah and Labuan.

30 SEPTEMBER

SMK TAMPARULI WINS RM50,000 GRAND PRIZE IN PETRONAS ALL ABOUT YOUTH 2015

SMK Tamparuli from Tuaran, Sabah took centre stage when it was announced as the PETRONAS All About Youth (AAY) 2015 champion at the grand finale of the nationwide competition which was participated by 1,800 Form Four students from 90 schools in Sabah, Sarawak, Johor, Melaka, Terengganu and Kelantan.

3 OCTOBER

PETRONAS SHARES INTEGRITY PROGRAMME WITH FOREIGN DELEGATES

PETRONAS received about 100 international delegates and their domestic counterparts at a knowledge exchange session on the topic of 'Integrity and Good Governance' hosted by Transparency International Malaysia (TI-M). Consisting of experts and working group committee members, the session convened to discuss the ISO Certification for Anti-Bribery Management System Standard.

10 OCTOBER

PETRONAS AND PETRONITA SUPPORT HARI SUKAN NEGARA WITH ORCHID FUN RUN & RIDE

PETRONAS and the Association of Women and Wives of PETRONAS (PETRONITA) organised an exciting event, the Orchid Fun Run & Ride, in conjunction with the official launch of Hari Sukan Negara. Approximately 3,000 cyclists and runners comprising PETRONAS staff and members of the public were flagged off for a 3.7km run and bicycle ride around the KLCC vicinity.

SIGNIFICANT EVENTS IN 2015

11 OCTOBER

MERCEDES AMG PETRONAS FORMULA ONE™ TEAM CROWNED 2015 WORLD CONSTRUCTOR'S CHAMPIONS

The MERCEDES AMG PETRONAS Formula One™ Team once again clinched the Constructor's Championship title. The win highlighted PETRONAS' commitment in producing an intelligent approach to fluid requirements, maximising performance and ensuring the team's continued success along the season.

26 OCTOBER

15 MILLION MAN-HOURS WITHOUT LOST TIME INJURY FOR THE PETRONAS FLOATING LNG SATU

PETRONAS achieved 15 million man-hours without Loss Time Injury (LTI) – further reinforcing its commitment to Zero Tolerance (ZeTo) rules in ensuring safety as our top priority.

31 OCTOBER

97 RECEIVE CERTIFICATES AT INSTEP & KTC CONVOCATION

97 Sabah youths received their certificates of completion at the 17th Convocation of Institut Teknologi Petroleum PETRONAS (INSTEP) and 2nd Convocation of Kimanis Petroleum Training Centre

2 NOVEMBER

PETRONAS BRINGS DEEPAVALI JOY TO THE NEEDY

In conjunction with the Festival of Lights, PETRONAS feted underprivileged children and senior citizens through its annual *Sentuhan Kasih* PETRONAS programme.

The event was a culmination of various activities involving 300 students from SKJT West Country (Timur), 30 residents from Chastity Home in Kajang and 50 PETRONAS staff volunteers. Over two days, PETRONAS volunteers conducted a *gotong-royong* cleanup activity, repainted the senior citizens' home, painted a mural around the school, as well as carried out fun learning activities with the children, organised by Galeri PETRONAS.

6 NOVEMBER

PETRONAS FLOATING LNG2 TAKES SHAPE WITH NEW CONSTRUCTION MILESTONE

PETRONAS achieved another milestone with the official keel-laying of its second floating liquefied natural gas facility, the PETRONAS Floating LNG2 (PFLNG2) at the Samsung Heavy Industries (SHI) Shipyard in Geoje Island, South Korea. The facility will make possible the liquefaction, production and offloading processing of natural gas in the Rotan field, 130 kilometers offshore Sabah with a capacity of 1.5 mtpa.

SIGNIFICANT EVENTS IN 2015

11 NOVEMBER

PETRONAS ANNOUNCES FINANCIAL RESULTS FOR THIRD QUARTER FY2015, REMAINS PROFITABLE DESPITE LOW OIL PRICES

PETRONAS persevered amidst the challenging industry environment, and recorded positive results for the third quarter, buoyed by its downstream business.

The company recorded a Profit After Tax (PAT) increase of 38 per cent for its downstream business compared to the year-to-date results for 2014. The results were fuelled by strong refining and marketing margins on the back of lower feedstock prices, and also improved plant performances for refineries and petrochemical plants.

30 NOVEMBER

PETRONAS TECHNOLOGY VENTURES SDN BHD (PTVSB) & ANTICORROSION PROTECTIVE SYSTEMS MALAYSIA (APSM) SIGN LICENSING COLLABORATION

PTVSB and APSM, a global pipeline inspection and rehabilitation specialist in the UK, have entered into a commercialisation agreement for InField Liner® - a flexible Kevlar® reinforced liner installed in existing subsea pipelines that acts as a corrosion barrier. This ground breaking technology provides, for the very first time, the capability to repair corroded pipelines in situ on the sea bed, representing tremendous savings over pipeline replacement costs.

1 DECEMBER

F1 WORLD CHAMPIONS HONOURS PETRONAS AND MALAYSIA

MERCEDES AMG PETRONAS Formula One™ Team Driver, Lewis Hamilton and Head of Mercedes-Benz Motorsports, Toto Wolff, paid tribute to PETRONAS for its winning formula which has helped the team secure its second consecutive Constructors' Championship title. As Title Partner, PETRONAS has continuously been at the forefront of innovation, developing Fluid Technology Solutions™ that provide outstanding efficiency and performance to the team under stringent race regulations set by the FIA.

9 DECEMBER

PETRONAS DRIVES CORPORATE INTEGRITY CULTURE THROUGH DIALOGUE

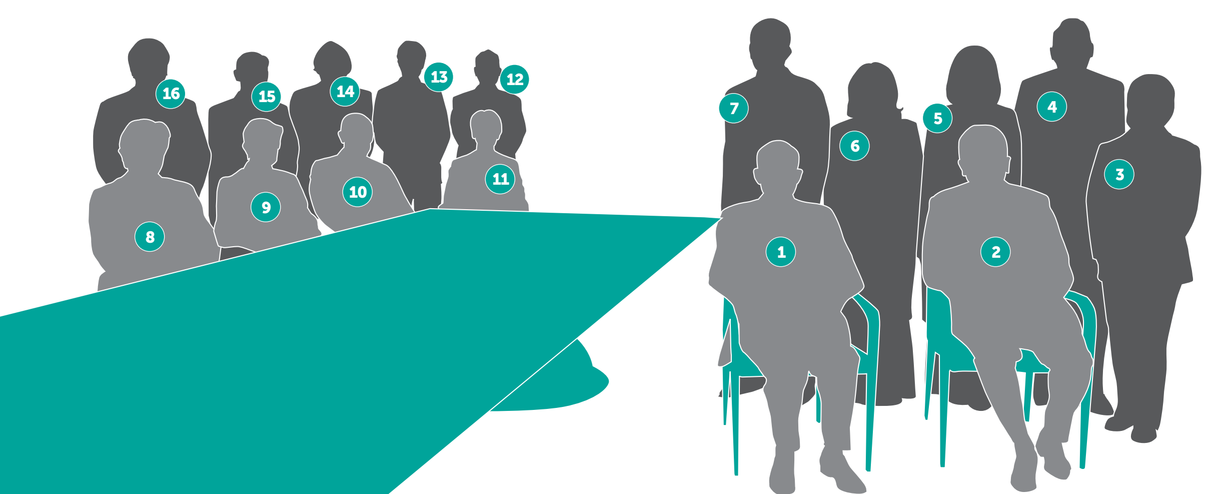
In conjunction with International Anti-Corruption Day, PETRONAS organised a roundtable dialogue to discuss methods of embedding integrity into corporate culture.

The session, hosted by the office of PETRONAS' Chief Integrity Officer (CIO), saw the consolidation of ideas and identification of challenges related to the promotion of values that reflect integrity, specifically in the oil and gas industry.

MEDIA
HIGHLIGHTS

OUR LEADERSHIP

BOARD OF DIRECTORS



1 Tan Sri Mohd Sidek Hassan
2 Datuk Wan Zulkiflee Wan Ariffin
3 Khodijah Abdullah
4 Tan Sri Dr Mohd Irwan Serigar Abdullah
5 Tan Sri Zarinah Anwar
6 Dato' Sharifah Sofianny Syed Hussain
7 Krishnan CK Menon
8 Datuk Manharlal Ratilal
9 Tan Sri Amirsham A Aziz
10 Tan Sri Dato' Seri Haji Megat Najmuddin Datuk Seri Dr Haji Megat Khas
11 Datuk Mohd Omar Mustapha
12 Dato' Mohamad Idris Mansor
13 Md Arif Mahmood
14 Datuk Muhammad Ibrahim
15 Abdul Rahman Musa *(Secretary)*
16 Maliki Kamal Mohd Yasin *(Secretary)*

Note:
Directors and Company Secretaries as at 1 May 2016

PROFILE OF BOARD OF DIRECTORS

TAN SRI MOHD SIDEK HASSAN
Chairman of the PETRONAS Board

Tan Sri Mohd Sidek Hassan was appointed to the PETRONAS Board on 1 July 2012. Prior to joining PETRONAS, he served in the Administrative and Diplomatic Service of the Malaysian Civil Service for 38 years, holding various positions including as Malaysia's Assistant Trade Commissioner in Tokyo, Trade Commissioner in Sydney, Minister Counselor of Economic Affairs in Washington DC as well as Deputy Secretary-General (Trade) and Secretary-General of the Ministry of International Trade and Industry. He was appointed the Chief Secretary to the Government of Malaysia in 2006, a position he held until June 2012.

DATUK WAN ZULKIFLEE WAN ARIFFIN
President & Group Chief Executive Officer

Datuk Wan Zulkiflee Wan Ariffin was appointed as the President & Group Chief Executive Officer on 1 April 2015. He began his career with PETRONAS in 1983. Prior to his current appointment, he was the Group Chief Operating Officer and Executive Vice President & Chief Executive Officer of Downstream Business. Datuk Wan Zulkiflee is the Chairman of the Board of PETRONAS Carigali Sdn Bhd, the Group's wholly-owned exploration and production arm. He also serves as the Chairman of the National Trust Fund, Chairman of the East Coast Economic Region Development Council (ECERDC)'s Audit Committee, and is a member of the Board of Trustees of the Razak School of Government.

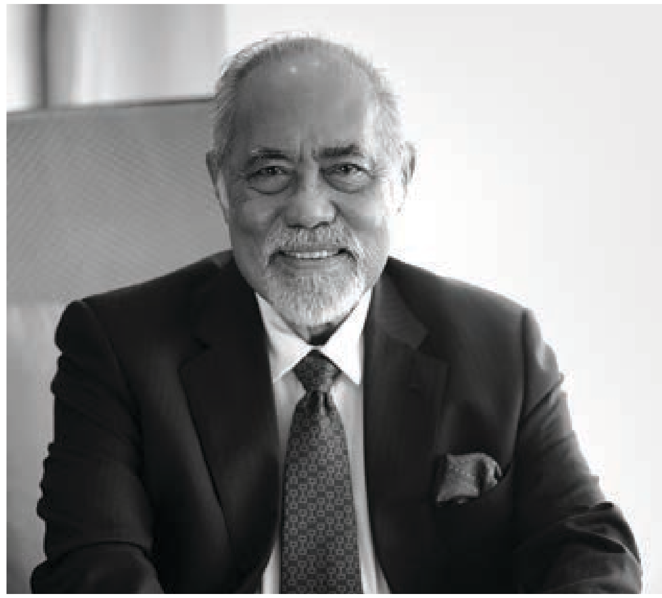
TAN SRI DR MOHD IRWAN SERIGAR ABDULLAH
Non-Independent, Non-Executive Director
Member of the PETRONAS Board Audit Committee

Tan Sri Dr Mohd Irwan Serigar Abdullah was appointed to the PETRONAS Board in November 2012. He is currently the Secretary-General of Treasury at the Ministry of Finance Malaysia. His tenure at the Ministry of Finance has seen him hold key positions in its Economic Division, Economic Analysis and International Division and as the Deputy Secretary-General (Policy). Tan Sri Dr Mohd Irwan also serves as a Board member in several agencies and government bodies such as Malaysia Airline System, Malaysia Deposit Insurance Corporation (PIDM), Bank Negara Malaysia, Tabung Haji (TH), Mass Rapid Transit Corporation Sdn Bhd (MRT), Razak School of Government, Johor Petroleum Development Corporation Berhad and Malaysia Global Innovation & Creativity Centre Berhad. He is also the Chairman of Kumpulan Wang Persaraan (Diperbadankan), Lembaga Hasil Dalam Negeri and Cyberview Sdn Bhd.

TAN SRI AMIRSHAM A AZIZ
Independent Non-Executive Director,
Chairman of the PETRONAS Board Governance and Risk Committee

Tan Sri Amirsham A Aziz was appointed to the PETRONAS Board in October 2011. He joined the Maybank Group in 1977 where he held various senior positions. He served as President and Chief Executive Officer of Maybank for a period of 14 years from 1994 to 2008. He was appointed a Minister in the Prime Minister's Department on 18 March 2008 in charge of the Economic Planning Unit and the Department of Statistics until 9 April 2009. He was appointed the Chairman of the National Economic Advisory Council from 1 June 2009 until 31 May 2011. Currently, he is the Chairman of Bursa Malaysia Berhad, Malaysian Investment Development Authority ("MIDA"), Financial Services Talent Council and Themed Attractions Resorts & Hotels Sdn Bhd. He also sits as a Non-Executive Director on the Boards of Samling Global Limited, Bermuda; CapitaLand Limited, Singapore, and RAM Holdings Berhad.

PROFILE OF BOARD OF DIRECTORS



DATUK MUHAMMAD IBRAHIM

Independent Non-Executive Director, Chairman of the PETRONAS Board Audit Committee and Member of the Board Governance and Risk Committee

Datuk Muhammad Ibrahim was appointed to the PETRONAS Board in April 2010. He was appointed as Governor of Bank Negara Malaysia with effect from 1 May 2016. Prior to his current appointment, he was the Deputy Governor of Bank Negara Malaysia since June 2010 and sits on its Monetary Policy and Financial Stability Committees. His areas of expertise include financial markets, foreign exchange, reserve management, payment and settlement systems, banking and insurance. He also serves as Chairman of the Finance Accreditation Agency; Board member of the Retirement Fund Incorporated; member of the Malaysian Institute of Accountants; panel member of the National Trust Fund; Senate Chair of the International Centre for Education in Islamic Finance; Chairman of the Irving Fisher Committee on Central Bank Statistics, Bank for International Settlement; trustee of the Tun Ismail Ali Chair Council; and Fellow of the Institute of Bankers Malaysia.

TAN SRI DATO' SERI HAJI MEGAT NAJMUDDIN DATUK SERI DR HAJI MEGAT KHAS

Independent Non-Executive Director, Member of the PETRONAS Board Governance and Risk Committee

Tan Sri Dato' Seri Haji Megat Najmuddin was appointed to the PETRONAS Board in April 2010. He is the President of the Federation of Public Listed Companies Berhad and Honorary Patron of the Malaysian Institute of Corporate Governance. He also serves as the Non-Executive Chairman of several public listed companies and is active in various non-governmental organisations (NGOs).

PROFILE OF BOARD OF DIRECTORS

DATO' MOHAMAD IDRIS MANSOR

Independent Non-Executive Director, Member of the PETRONAS Board Audit Committee and the PETRONAS Board Remuneration Committee

Dato' Mohamad Idris Mansor was appointed to the PETRONAS Board in April 2010. He has extensive experience in the oil and gas industry, having held various senior management positions within the Group including as Senior Vice President, Exploration & Production Business. He also served as the International Business Advisor to PTT Exploration and Production Company of Thailand prior to his current appointment. He is currently a Board member of PETRONAS Carigali Sdn Bhd.

KRISHNAN CK MENON

Independent Non-Executive Director, Member of the PETRONAS Board Audit Committee and PETRONAS Board Governance and Risk Committee

Krishnan CK Menon was appointed to the PETRONAS Board in April 2010. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He is Chairman of SCICOM (MSC) Berhad, KLCC Property Holdings Berhad, KLCC (Holdings) Sdn Bhd and Econpile Holdings Berhad.

PROFILE OF BOARD OF DIRECTORS

DATUK MOHD OMAR MUSTAPHA

Independent Non-Executive Director, Chairman of the PETRONAS Board Remuneration Committee

Datuk Mohd Omar Mustapha was appointed to the PETRONAS Board in September 2009 and is Chairman of the PETRONAS Leadership Centre (PLC). He is the Founder and Chairman Emeritus of Ethos & Company, a leading Malaysian-based management consulting firm. He was nominated a 2008 Eisenhower Fellow, a 2009 Young Global Leader of the World Economic Forum and was an Advisory Council member of the Institute for Democracy and Economic Affairs (IDEAS).

TAN SRI ZARINAH ANWAR

Independent Non-Executive Director, Member of the PETRONAS Board Remuneration Committee

Tan Sri Zarinah Anwar was appointed to the PETRONAS Board in August 2015. She is currently the Chairman of Malaysia Debt Ventures Berhad and is the former Chairman of the Securities Commission Malaysia (SC), a position she held for six years until her retirement in March 2012.

Prior to joining the SC, Tan Sri Zarinah was Deputy Chairman of Shell Malaysia having spent 22 years with the Shell Group, serving in various capacities across Shell's diverse business interests in Malaysia.

Tan Sri Zarinah is currently a member of the Board of Directors of PEMANDU and BFR Insititute, a subsidiary of PEMANDU. She is also a Trustee of the Razak School of Government, Yayasan Hasanah and the Jeffrey Cheah Foundation, and is a member of the Academic Advisory Council of Universiti Teknologi PETRONAS. She also serves as a member of the National Advisory and Consultative Council on Women.

Tan Sri Zarinah also holds the Abdullah bin Abdulaziz Fellowship at the Oxford Centre for Islamic Studies, United Kingdom and is a member of the Advisory Board of the Emirates Securities & Commodities Authority.

PROFILE OF BOARD OF DIRECTORS

DATO' SHARIFAH SOFIANNY SYED HUSSAIN

Independent Non-Executive Director, Member of the PETRONAS Board Audit Committee

Dato' Sharifah Sofianny was appointed to the PETRONAS Board on 1 October 2015. Prior to this, she was the Managing Director, Head of Client Coverage, Global Banking at Maybank Investment Bank Berhad.

She began her career in 1984 at Shell Malaysia in auditing and accountancy roles, and was appointed Head of Finance of Shell Chemicals in 1994.

She later joined K&N Kenanga Bhd where she served as Investment Advisor. In 2008 she was appointed Head, Institutional Dealing where she served until 2011, before joining Maybank Berhad as Deputy Managing Director, Equities. She was appointed Managing Director, Head of Institutional Equities in 2012.

Dato' Sharifah Sofianny sits on the Committee of Review of the Bachelor of Finance programme at the Faculty of Business and Accountancy of University Malaya.

DATUK MANHARLAL RATILAL

Executive Director

Datuk Manharlal Ratilal is a member of the PETRONAS Board and *Executive Committee. He is the Executive Vice President and Group Chief Financial Officer. He also sits on the Board of several subsidiaries in the PETRONAS Group. Prior to joining PETRONAS in 2003, he was the Managing Director of an investment bank where he specialised in corporate finance and advised on mergers and acquisitions and the capital markets.

** Executive Committee is now known as Executive Leadership Team (ELT) effective from 1 April 2016.*

PROFILE OF BOARD OF DIRECTORS

MD ARIF MAHMOOD
Executive Director

Md Arif Mahmood was appointed to the PETRONAS Board in May 2015. He is the Executive Vice President and Chief Executive Officer of Downstream Business. He has over 30 years of experience in PETRONAS, and was previously the Senior Vice President, Corporate Strategy & Risk as well as Vice President of Oil Business. He has also held various senior management positions in PETRONAS' subsidiaries including PETRONAS Gas Berhad, Engen Petroleum Limited, PETRONAS Dagangan Berhad and ASEAN Bintulu Fertilizer Sdn Bhd. He is a member of the PETRONAS *Executive Committee. He is a member of the Board for many subsidiaries and JV companies within the PETRONAS Group, including Chairman to public listed entities i.e. PETRONAS Dagangan Berhad and PETRONAS Chemicals Group Berhad. He is also a Member of Universiti Teknologi PETRONAS (UTP) Industry Advisory Panel.

KHODIJAH ABDULLAH
Alternate Director to
YBhg Tan Sri Dr Mohd Irwan Serigar Abdullah

Khodijah Abdullah was appointed as an Alternate Director to Tan Sri Dr Mohd Irwan Serigar Abdullah on the Board of PETRONAS in October 2015. She is currently the Under-Secretary of Tax Division, Ministry of Finance. She is also a member of the Malaysian delegation in negotiations for an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, and is well-versed in negotiations on other international agreements (bilateral and multilateral) such as free trade agreements (FTAs), Joint Development Agreements and cooperation agreements.

PROFILE OF BOARD OF DIRECTORS

MALIKI KAMAL MOHD YASIN
Secretary

Maliki Kamal Mohd Yasin is the Secretary to the PETRONAS Board of Directors and is also the Secretary to the PETRONAS Board of Governance and Risk Committee and Board Remuneration Committee. He is the Head of Corporate Governance & Finance and Head, Legal Downstream under Group Legal. He joined PETRONAS in 1990 and has served in various positions in the Company.

ABDUL RAHMAN MUSA @ ONN
Secretary

Abdul Rahman Musa @ Onn is the Joint Secretary to the PETRONAS Board of Directors and is also the Secretary to the *Executive Committee of PETRONAS. He is the Head of Corporate Secretariat & Board Governance, Group Legal. He joined PETRONAS in 1981 and has been with the Company for over 30 years. His areas of legal expertise include corporate law, company secretarialship and corporate governance and compliance.

** Executive Committee is now known as Executive Leadership Team (ELT) effective from 1 April 2016.*

EXECUTIVE LEADERSHIP TEAM

EXECUTIVE LEADERSHIP TEAM

1. **DATUK WAN ZULKIFLEE WAN ARIFFIN**
   President & Group Chief Executive Officer
2. **DATUK MOHD ANUAR TAIB**
   Executive Vice President & Chief Executive Officer, Upstream Business
3. **MD ARIF MAHMOOD**
   Executive Vice President & Chief Executive Officer, Downstream Business
4. **DATUK MANHARLAL RATILAL**
   Executive Vice President & Group Chief Financial Officer
5. **MOHAMAD RAUFF NABI BAX**
   Senior Vice President & Group General Counsel
6. **DATO' RAIHA AZNI ABD RAHMAN**
   Senior Vice President Group Human Resource Management
7. **ADIF ZULKIFLI**
   Senior Vice President Corporate Strategy
8. **MAZUIN ISMAIL**
   Senior Vice President Project Delivery & Technology

EXECUTIVE LEADERSHIP TEAM PROFILE

1

DATUK WAN ZULKIFLEE WAN ARIFFIN

President & Group Chief Executive Officer

Datuk Wan Zulkiflee Wan Ariffin, 55, holds a Bachelor of Engineering degree in Chemical Engineering from the University of Adelaide, South Australia. He attended the INSEAD Senior Management Development Programme and the Advanced Management Programme at Harvard Business School, Harvard University, USA. He was also conferred a Honorary Fellowship by the Institution of Chemical Engineers, United Kingdom.

Datuk Wan Zulkiflee is currently the PETRONAS President & Group Chief Executive Officer, assuming the position since April 2015. Joining the company in 1983 as a Process Engineer, he was involved in the development of several gas processing plants.

Prior to his current appointment, he was PETRONAS' Chief Operating Officer as well as the Executive Vice President & Chief Executive Officer of Downstream Business. He was also the Chairman of PETRONAS Chemicals Group Berhad and PETRONAS Dagangan Berhad.

During his tenure in PETRONAS, he held various positions which include serving as Executive Assistant to the President in the President's Office, and as General Manager of the International Projects Management Division, OGP Technical Services, as well as of PETRONAS' Strategy & Business Development Unit. He also served as Managing Director & Chief Executive Officer of PETRONAS Gas Berhad and as Vice President of Gas Business.

He is a Council Member of the East Coast Economic Region Development Council (ECERDC), as well as Chairman of the ECERDC's Audit Committee. He is also Chairman of the National Trust Fund, a member of the Board of Trustees of the Razak School of Government, and the Industry Advisor to the Engineering Faculty of Universiti Putra Malaysia.

2

DATUK MOHD ANUAR TAIB

Executive Vice President & Chief Executive Officer, Upstream Business

Datuk Mohd Anuar Taib, 48, holds a Bachelor of Science degree in Mechanical Engineering from Case Reserve University, USA and a Masters of Business Administration in International Management from the Royal Melbourne Institute of Technology University, Melbourne, Australia.

He began his career in 1990 as a Wellsite drilling engineer with an international oil and gas company. He then progressed through various technical, commercial and leadership positions taking on country, regional and global roles.

He joined PETRONAS in 2012 as Chief Executive Officer of PETRONAS Development & Production (PDP), which is responsible for both Malaysia and International operations. He then advanced to the role of Senior Vice President of Upstream Malaysia.

Datuk Anuar is currently the Executive Vice President & Chief Executive Officer of Upstream Business, which integrates the Exploration & Production and LNG Business globally.

He also serves on various Boards of several subsidiaries and joint ventures companies in the PETRONAS Group. He is also Chairman of Asia Pacific Region in the Society of Petroleum Engineers.

3

MD ARIF MAHMOOD

Executive Vice President & Chief Executive Officer, Downstream Business

Md Arif Mahmood, 53, holds a Bachelor of Science degree in Electrical Engineering (summa cum laude) from Boston University, USA and a Masters of Business Administration from Massachusetts Institute of Technology, USA.

He has over 30 years of experience in the oil and gas industry. He spent the first 10 years of his career as a system/measurement engineer covering all aspects of engineering from design, construction, commissioning, technical services and operations. He was also responsible for training technicians to be ready for the operations of the Peninsular Gas Utilisation System.

Md Arif is currently the Executive Vice President & Chief Executive Officer of Downstream Business. Prior to this, he held the key positions of Senior Vice President of Corporate Strategy & Risk and Vice President of Oil Business. During his tenure, he also held various senior management positions in PETRONAS Gas Berhad, Engen Petroleum Limited, PETRONAS Dagangan Berhad and Asean Bintulu Fertilizer Sdn Bhd.

Md Arif has been an active participant in shaping and driving PETRONAS' strategic studies. Working closely with the Boston Consulting Group (BCG) and McKinsey & Co, he was a PETRONAS Corporate Strategy Study member in 1995, director in 2002 and Steering Committee member in 2008. In 2012, he led the PETRONAS team in the acquisition of Canada's Progress Energy, the company's most significant venture into unconventional energy as well PETRONAS' biggest acquisition to date.

Md Arif is a member of the PETRONAS Board, PETRONAS Talent Council, and the Universiti Teknologi PETRONAS Industry Advisory Panel. He is also Board member of various subsidiaries and joint venture companies within the PETRONAS Group and serves as Chairman to PETRONAS Dagangan Berhad and PETRONAS Chemicals Group Berhad.

4

DATUK MANHARLAL RATILAL

Executive Vice President & Group Chief Financial Officer

Datuk Manharlal Ratilal, 55, holds a Bachelor of Arts (Honours) degree in Accountancy from the City of Birmingham Polytechnic, United Kingdom and a Masters of Business Administration from the University of Aston in Birmingham, United Kingdom.

He joined PETRONAS in 2003 and is currently Executive Vice President & Group Chief Financial Officer. Prior to joining PETRONAS, he was attached to a local investment bank for 18 years, concentrating on corporate finance including advisory work in mergers and acquisitions, equity and debt capital markets. From 1997 to 2002, he served as the Managing Director of the investment bank.

Datuk Manharlal also sits on the Boards of other subsidiaries in the PETRONAS Group. Externally, he serves as Director to MISC Berhad, KLCC Property Holdings Berhad and Cagamas Holdings Berhad.

EXECUTIVE LEADERSHIP TEAM PROFILE

EXECUTIVE LEADERSHIP TEAM PROFILE

5

MOHAMAD RAUFF NABI BAX
Senior Vice President & Group General Counsel, Group Legal

Mohamad Rauff, 62, holds a Bachelor of Law (Honours) degree from the University of Malaya. Rauff commenced his career with PETRONAS in 1990.

Prior to joining PETRONAS, he served for 12 years in the Government's judicial and legal services, including as Legal Advisor to the Ministry of Defence, Deputy Public Prosecutor, Assistant Director Legal Aid and finally, Senior Federal Counsel in the Civil Division of the Attorney-General's Chambers.

Rauff is currently Senior Vice President & Group General Counsel of Group Legal in PETRONAS. During his tenure with the company, Rauff held various legal positions in the Projects Department of the Marketing & Refining Division, and was General Manager (Legal – Oil Business) before assuming the Country Manager's post for PETRONAS in India. In India, he was directly involved in the setting up of the LPG Receiving Terminal at Haldia, West Bengal and at Ennore, Tamil Nadu.

He has also served as Director for several companies in the PETRONAS Group, including PETRONAS Dagangan Berhad, Malaysian International Trading Corporation Sdn Bhd, PETRONAS Trading Corporation Sdn Bhd, IndianOil PETRONAS Pvt Ltd, PETRONAS Lubricants (India) Pvt Ltd.

He is currently a Director of Prince Court Medical Centre.

6

DATO' RAIHA AZNI ABD RAHMAN
Senior Vice President, Group Human Resource Management

Dato' Raiha Azni, 56, holds a Bachelor's degree in Marketing from Syracuse University, New York, USA. She has also completed various senior management development programmes including INSEAD. She joined PETRONAS in 1984 and has been in the Human Resource Management fraternity for 32 years.

Dato' Raiha is currently the Senior Vice President of Group Human Resource Management. Prior to this, she held the position of Vice President, Human Resource Management Division as well as various other managerial positions in the Exploration & Production Business, PETRONAS Carigali Sdn Bhd, PETRONAS Gas Berhad and Malaysia International Trading Corporation Sdn Bhd.

Responsible for the management of more than 50,000 employees worldwide, Dato' Raiha takes a leading role in human resource transformation. Her core areas include people strategy & planning, organisational development & change management, leadership & capability development, talent management, and education & learning.

Dato' Raiha was instrumental in the human resource due diligence for PETRONAS' acquisition of Canada's Progress Energy. She was also a negotiator for the PETRONAS Collective Agreements. A strong advocate of women in the workforce, she established the PETRONAS Leading Women Network.

Dato' Raiha is also a council member of the Malaysian Employers Federation.

7

ADIF ZULKIFLI
Senior Vice President, Corporate Strategy

Adif Zulkifli, 46, holds a Bachelor of Science degree in Petroleum Engineering from the Colorado School of Mines and a Masters of Business Administration from Kellogg School of Management, Northwestern University, Illinois, USA.

He has been in the oil and gas industry for more than 23 years. He began his career as a Reservoir Engineer at PETRONAS' Peninsular Malaysia Operations after completing his studies as a PETRONAS scholar.

Adif is currently the Senior Vice President of Corporate Strategy, assuming the position since April 2015. He is responsible for shaping and steering PETRONAS' long-term strategic direction, including leading Mergers & Acquisition and change management.

Leading up to his current position, he was Vice President of Malaysian Petroleum Management, accountable for all upstream regulation and governance for the country's oil and gas resources. Prior to that, Adif headed the Strategy & New Ventures division in the Exploration & Production business. He was responsible for designing and implementing PETRONAS' EP strategy blueprint, as well as for spearheading the EP business development efforts. Prior to this, he also served as Executive Assistant to the President & Group Chief Executive Officer.

Adif is a member of the Society of Petroleum Engineers and serves as Director for a number of PETRONAS companies, including PETRONAS Carigali Sdn Bhd, PETRONAS LNG Sdn Bhd, PETRONAS Leadership Centre and Universiti Teknologi PETRONAS. He is also the Chairman for Kertih Terminal, Terengganu.

Externally, Adif is also a Director of the Malaysian Industry-Government Group for High Technology (MIGHT) which is an organisation under the Prime Minister's Department, and the International Petroleum Technology Conference.

8

MAZUIN ISMAIL
Senior Vice President, Project Delivery & Technology

Mazuin Ismail, 48, graduated in Civil and Structural Engineering from the University of Bradford, United Kingdom, and obtained his Master of Business Administration from University of Adelaide, Australia.

Mazuin has more than 20 years of experience in the oil and gas industry. His career includes not only project execution & engineering, but also internal audit & governance and business development. These experiences allow him to add value across the breadth of PETRONAS' business and operations. He has also taken on leadership roles in the areas of petroleum management, strategic planning and change management.

Mazuin is currently the Senior Vice President of Project Delivery & Technology, assuming the position since April 2016. He is responsible for leading the Project Delivery & Technology division, a Centre of Excellence for project delivery, procurement and technology in PETRONAS. As a newly integrated structure, Project Delivery & Technology aims to position PETRONAS competitively in the market through top quartile project performance and technology as a differentiator.

Leading up to his appointment to the current position, Mazuin was Vice President of Technical Global, a division tasked to ensure the adoption of PETRONAS' best practices in projects & engineering, drilling, petroleum engineering technology, technical data and operational excellence, throughout its operations worldwide.

GOVERNANCE REVIEW

STATEMENT OF CORPORATE GOVERNANCE

PETRONAS remains steadfast in upholding the highest standards of corporate governance as it firmly believes that such matter is vital to the Group's ability to create value and improve efficiencies, whilst maintaining accountability and transparency in all our business dealings. PETRONAS' continuous commitment in fostering a culture of integrity, ethical behaviour and professionalism underpins its ability to deliver and sustain its performance to meet the challenges of the future.

In developing and implementing Group-wide policies, PETRONAS refers to and complies with all applicable laws and regulations. In addition, we regularly benchmark our policies and procedures against prevailing international standards as we believe it is essential for the organisation to adopt industry best practices in corporate governance given PETRONAS' strong global orientation and the growing expectations of stakeholders worldwide for good corporate citizenship.

PETRONAS BOARD GOVERNANCE FRAMEWORK

The Board recognises that having an established and clearly defined roles and responsibilities of the Board and the management is important to ensure effective oversight and executive roles.

Delegation of the Board's authority to the management is subject to defined limits of authority and monitoring by the Board. However, as the Board has the overall responsibility to manage and supervise the affairs of the Company in accordance with the law, there are matters which are reserved for the Board's consideration as set out in the Board Charter.

The Board oversees the Company's strategic planning, financial, operational and resource management, risk assessment and provides effective oversight of the management. In this regard, the Board also monitors the risks material to PETRONAS and ensures that internal systems of risk management and control are in place to mitigate such risks. Certain functions are delegated to Board Committees.

There is a clear separation of the positions and roles between the Chairman and the President & Group CEO to promote greater accountability and enhance checks and balances.

The Chairman is responsible to lead the Board and to provide leadership and guidance to the Board from the aspect of governance. His roles, amongst others, are to facilitate the meeting process and ensure that the Board and its Committees function effectively. Together with the Company Secretary, he ensures that the Board members receive regular and timely information regarding the Company prior to Board meetings. Board members also have access to the Company Secretary for any further information they may require.

The President & Group CEO leads the management of the Company and provides direction for the implementation of the strategies and business plans as approved by the Board and the overall management of the business operations Group-wide. The President & Group CEO also chairs the Executive Committee* which assists him in his management of the business and affairs of the Company.

THE BOARD

In accordance with the provisions of the Company's Articles of Association, the number of Directors shall not be less than two or more than fifteen.

As at 31 December 2015, the Board was made up of the Non-Independent Non-Executive Chairman, the President & Group CEO, three Executive Directors and ten Non-Executive Directors of which nine were Independent Directors.

A list of the current Directors, with their biographies, is provided on pages 122 to 131.

Board Charter

The Board is guided by the Board Charter which sets out the Board's strategic intent and provides guidelines on the Board's roles and responsibilities.

The Board Charter, specifies, amongst others, the authority, responsibilities, membership and operation of the Board of PETRONAS, as well as the list of matters which are reserved for the Board's consideration.

Matters reserved for the Board include strategy and management matters such as strategy development and management, structure and capital, major investment decisions, funding requirements. It also includes financial, governance and risk matters, such as financial reporting and control and enterprise risk management. Corporate matters such as reputation and stakeholder management, HSE matters such as board and board committee membership, board remuneration and nomination are also amongst matters for the Board's consideration.

Board Balance and Independence

The Malaysian Code of Corporate Governance (MCCG) emphasises board effectiveness through strengthening its composition and reinforcing its independence. In line with the spirit of the MCCG, the Company has in place the selection criteria for the appointment and re-appointment of Directors. In addition, the Company has developed the Independent Directors' Guidelines and the Independent Directors' Review. The assessments of the Directors are carried out annually. The Company has also enhanced the Independent Directors' Guidelines to ensure its comprehensiveness and clarity.

The current Board composition consists of individuals who have diverse skills, knowledge, experience, expertise and gender and is considered to be a well-balanced group and of an appropriate size. This diversity is identified by the members as one of the strengths of the Board.

The Non-Executive Directors combine broad business and commercial experience with independent and objective judgement. The balance between the Non-Executive and Executive Directors enables the Board to provide clear and effective leadership and maintain the highest standards of integrity across the Company's business activities.

Board Assessment

The Board recognises the importance of Board assessment to provide the opportunity to enhance its effectiveness and to better understand its own roles and responsibilities.

** Executive Committee is now known as Executive Leadership Team effective from 1 April 2016.*

STATEMENT OF CORPORATE GOVERNANCE

The Board undergoes a 360-degree assessment whereby each Director assesses the Board as a whole and its Committees as well as assessing himself or herself and his or her peers.

Onboarding Programme and Board Continuous Training

In order to ensure the Board discharges its duties effectively as well as to keep abreast with regulatory and governance updates, other developments and broad business trends, the Board members frequently attend training programmes provided by external training providers or in-house training programmes. During the year under review, the Company organised two in-house training programmes for the Directors.

The Company also provides in-house onboarding programmes to newly appointed Directors. During the year under review, three onboarding programmes were conducted to the newly appointed Directors and alternate director. The onboarding serves as an introductory programme to the new directors on the overall Company's business as well as an overview of PETRONAS governance framework, including training on the PETRONAS Code of Conduct and Business Ethics (CoBE), PETRONAS No Gift Policy and Anti-Bribery and Corruption Policy and Guidelines (ABC Manual).

To give a better appreciation for the Company's business, the Board also, from time-to-time, attends Board Meetings-cum-site visits at various locations of the Company's project sites.

Board Meetings and Attendance

The Board met a total of 13 times including at Special Board Meetings during the year.

Prior to Board meetings, the Non-Executive Directors, meet to discuss issues relevant to the Company. Details of Directors attendance at Board Meetings during the year 2015 are as follows:

No.	Name of Directors	Board Meetings Attendance	Board Meetings %
1	Tan Sri Mohd Sidek Hassan	13	100
2	Tan Sri Dato' Seri Shamsul Azhar Abbas[1]	2 out of 2 meetings	100
3	Datuk Wan Zulkiflee Wan Ariffin	13	100
4	Tan Sri Dr Mohd Irwan Serigar Abdullah[2] (His alternate attended 2 Board Meetings)	8	62
5	Datuk Muhammad Ibrahim	11	85
6	Tan Sri Amirsham Abdul Aziz	13	100
7	Dato' Mohamad Idris Mansor	12	93
8	Tan Sri Dato' Seri Haji Megat Najmuddin Datuk Seri Dr Haji Megat Khas	12	93
9	Mr Krishnan A/L CK Menon	12	93
10	Datin Yap Siew Bee[3]	13	100
11	Datuk Mohd Omar Mustapha	12	93
12	Tan Sri Zarinah Anwar[4]	5 out of 5 meetings	100
13	Dato' Sharifah Sofianny Syed Hussein[4]	4 out of 4 meetings	100
14	Dato' Wee Yiaw Hin[5]	13	100
15	Datuk Manharlal Ratilal[6]	10 out of 10 meetings	100
16	Encik Md Arif Mahmood[6]	10 out of 10 meetings	100
	Total Board Meetings held in 2015	**13**	

Note:

[1] Tan Sri Dato' Seri Shamsul Azhar Abbas had resigned as Director on 31 March 2015

[2] Puan Khodijah Abdullah is the alternate to Tan Sri Dr Mohd Irwan Serigar Abdullah

[3] Datin Yap Siew Bee retired with effect from 28 April 2016

[4] Tan Sri Zarinah Anwar and Dato' Sharifah Sofianny Syed Hussein were appointed to the Board on 17 August 2015 and 1 October 2015 respectively

[5] Dato' Wee Yiaw Hin resigned with effect from 1 April 2016

[6] Datuk Manharlal Ratilal and Encik Md Arif Mahmood were appointed to the Board on 8 May 2015

STATEMENT OF CORPORATE GOVERNANCE

Conflict of Interest

In ensuring transparency and integrity of decision making as well as to prevent any conflict of interest, a declaration of interest by Directors is fixed as an agenda item of the Board Meeting. In this regard, the Directors acknowledge that they shall immediately disclose the nature and extent of their interest and abstain from participating in any discussion or voting on any proposal in which they have an interest. Such matters are recorded in the minutes of the Board Meeting.

The Company also disseminates the approved disclosure forms annually to ensure the Directors update their disclosures pursuant to Section 131 and Section 135 of the Companies Act, 1965, and the CoBE. The Company also maintains the Directors Register of Interest pursuant to the said sections.

Apart from the above, the Directors are required to declare their interests annually, in line with the requirements on the disclosure of Director's interest in the Company's Audited Financial Statement.

Re-election and Re-appointment

In accordance with Article 71(1) of the Company's Articles of Association, at least one-third of the Directors shall retire from office by rotation at each Annual General Meeting (AGM) but shall be eligible for re-election. This retirement by rotation shall only be applicable to all Non-Executive Directors except the Chairman.

In light of the above, at the 2016 AGM which was held on 28 April 2016, Datin Yap Siew Bee and Mr Krishnan A/L C K Menon had retired and Mr Krishnan A/L C K Menon was re-elected to the Board.

In addition, Tan Sri Dato' Seri Haji Megat Najmuddin bin Datuk Seri Dr Haji Megat Khas and Dato' Mohamad Idris bin Mansor had also retired pursuant to Section 129 of the Companies Act, 1965 and were re-appointed at the 2016 AGM to the Board accordingly. These Directors who are over 70 years of age shall hold office until the conclusion of the next AGM.

In accordance with Article 68 of the Company's Articles of Association which requires newly appointed Directors to hold office until the following AGM, Tan Sri Zarinah Anwar, Dato' Sharifah Sofianny Syed Hussein, Datuk Manharlal Ratilal and Encik Md Arif Mahmood had retired at the 2016 AGM and were subsequently re-elected as Directors of the Company.

BOARD COMMITTEES

There are three Board Committees made up of Non-Executive Directors, namely the Audit Committee, the Governance and Risk Committee and the Remuneration Committee.

Audit Committee

Established in 1985, the PETRONAS Board Audit Committee assists the Board in fulfilling its oversight functions in relation to internal control, risk management and financial reporting of the Company. The Committee provides the Board with the assurance of the quality and reliability of the financial information reported by the Company whilst ensuring the integrity of the Company's assets.

The Board Audit Committee comprises entirely of Non-Executive Directors. The members of the Board Audit Committee are as shown on pages 122 to 131.

In 2015, the Board Audit Committee convened nine times to deliberate on a total of 86 papers comprising the audit reports, Group quarterly financial results as well as other GIA performance reports. The members' attendance at meetings in 2015 are as follows:

No.	Name of Directors	BAC Meetings Attendance	BAC Meetings %
1	Datuk Muhammad Ibrahim	9	100
2	Mr Krishnan A/L CK Menon	9	100
3	Tan Sri Dr Mohd Irwan Serigar Abdullah	7	78
4	Dato' Mohamad Idris Mansor	8	89
5	Dato' Sharifah Sofianny Syed Hussain*	2	100
	Total BAC Meetings held in 2015	**9**	

Note:

** Dato' Sharifah Sofianny Syed Hussain was appointed as BAC Member by PETRONAS Board on 16 October 2015.*

Governance and Risk Committee

The Board Governance and Risk Committee is responsible in assessing the performance of the Board, identifying, nominating and orientating new Directors. The Committee also reviews the policies, practices, principal risks and oversees the adequacy and effectiveness of the risk assessment and risk management system to monitor risks in the PETRONAS Group.

The Committee also continues to review and recommend to the Board the appropriate corporate governance policies and procedures in accordance with international governance and best practices and monitors the Company's compliance with good governance standards.

The Committee has direct access to the Corporate Governance and International Compliance Unit, Group Legal, which promotes a structured, consistent and centrally-driven integrated approach to global governance and compliance for the PETRONAS Group.

The members of the Board Governance and Risk Committee are as shown on pages 119 to 121.

In 2015, the Committee met a total of eight times. The members' attendance at meetings during 2015 are as follows:

No.	Name of Directors	BGRC Meetings Attendance	%
1	Tan Sri Amirsham Abdul Aziz	7	88
2	Tan Sri Dato' Seri Haji Megat Najmuddin Datuk Seri Dr Haji Megat Khas	6	75
3	Datuk Muhammad Ibrahim	5	63
4	Mr Krishnan A/L CK Menon	8	100
	Total BGRC Meetings held in 2015	**8**	

Remuneration Committee

The Remuneration Committee (REMCO) was established to assist the Board in discharging its responsibilities in the determination of the remuneration and compensation of the Directors and certain top Management of the Company. The Committee recommends to the Board the remuneration policy for the Executive Directors and certain top Management of the Company. The Committee also reviews the President & Group CEO's Performance Scorecard, and recommends the rating of the scorecard to the Board for its approval.

The Committee also oversees the development of a succession management plan for the President & Group CEO and top Management.

In 2015, the Committee met a total of seven times.

The members of the Remuneration Committee are as shown on pages 121 to 122.

The members' attendance at meetings during 2015 are as follows:

No.	Name of Directors	REMCO Meetings Attendance	%
1	Datuk Mohd Omar Mustapha	6	86
2	Datin Yap Siew Bee*	7	100
3	Dato' Mohamad Idris Mansor	7	100
4	Tan Sri Zarinah Anwar*	1 out of 1 meeting	100
	Total REMCO Meetings held in 2015	**7**	

Note:
** Tan Sri Zarinah Anwar was appointed as REMCO Member by PETRONAS Board on 16 October 2015*
** Datin Yap Siew Bee retired with effect from 28 April 2016*

STATEMENT OF CORPORATE GOVERNANCE

EXECUTIVE COMMITTEE

The Executive Committee (EXCO)* assists the President & Group CEO in his management of PETRONAS particularly in relation to strategic business development, high impact and high value investments and cross-business issues of the Group.

The President & Group CEO chairs the EXCO meetings. During the year under review, 27 meetings were held.

The members of the EXCO are as shown on pages 128-131.

ANNUAL GENERAL MEETING

The AGM was held on 28 April 2016 in accordance with the legal and regulatory requirements prescribed by the Companies Act, 1965.

BUSINESS ETHICS AND COMPLIANCE

Code of Conduct and Business Ethics

PETRONAS' commitment to good corporate governance is reflected in its Code of Conduct and Business Ethics (CoBE) and is part of the Group's overall business strategy. This commitment includes upholding the highest standards of ethics and integrity in the conduct of the Group's business and operations. This applies to all employees and directors, and third parties who represent or act for the Group.

Benchmarked against international standards, the CoBE contains detailed policy statements on the standards of behaviour and ethical conduct expected of each employee and director as well as third parties working for or on behalf of the PETRONAS Group in areas such as conflicts of interest, anti-corruption, competition, anti-money laundering, international trade and export controls, amongst others. The CoBE emphasises and advances the principles of discipline, good conduct, professionalism, loyalty, integrity and cohesiveness that are critical to the success and wellbeing of the PETRONAS Group.

Since the launch of the CoBE on 1 April 2012, PETRONAS has communicated the CoBE to all employees through a series of training programmes, including through its onboarding programme for new executives. As at 31 December 2015, 39,203 employees have undergone face-to-face training on the CoBE. Refresher trainings are also conducted periodically to ensure ongoing compliance by all directors and employees. In 2015, a compulsory CoBE online training programme was rolled out to reach out to more employees across the Group, with the first phase targeting PETRONAS Group employees in Malaysia.

In view of the CoBE's global application across the Group in all countries where we have operations, some provisions of the CoBE will be modified to adapt the CoBE to the requirements of the local jurisdictions. The CoBE will have separate Country Supplements for countries where PETRONAS has its operations to cater for local jurisdictions' applicable legislation and social mores. The CoBE is accompanied by a CoBE Guide that sets out the FAQs, together with a list of "Dos and Don'ts" in relation to certain specific situations.

The CoBE, the Country Supplements (where applicable) and the CoBE Guide have been distributed to all employees and they are required to acknowledge in writing that they understand and will comply with the CoBE. The consequences of breaching the CoBE are clearly set out in the CoBE, and subject to the requirements of applicable laws, disciplinary action will be taken against any employee for non-compliance with the CoBE.

The CoBE documents are available on PETRONAS' corporate website at http://www.petronas.com.my/about-us/governance/Pages/governance/code-of-conduct-business-ethics.aspx.

** Executive Committee (EXCO) is now known as Executive Leadership Team (ELT) effective from 1 April 2016*

Third Parties Working with the Company

PETRONAS expects all third parties acting for or on its behalf to share the Company's values and ethical standards as their actions can implicate PETRONAS legally and tarnish the Company's reputation.

For the purpose of ensuring that we only do business with third parties who share our commitment to ethics and integrity, all third parties are made aware of the CoBE and our expectations of them. A provision for all third parties to comply with the CoBE is now required to be included in all our contracts.

Training and communication sessions on the CoBE have also been conducted to ensure that third parties understand PETRONAS' expectations and to guarantee their compliance with the CoBE.

"Ask the CoBE"

In order to assist better understanding of the CoBE, a helpdesk cobe@petronas.com.my was created to answer queries from employees, third parties and members of the public on matters related to the CoBE. Since its inception, the CoBE helpdesk has received and responded to various queries raised by employees, third parties and the public on issues related to the CoBE.

Anti-Bribery and Corruption Compliance Programme

PETRONAS is committed to complying with high ethical standards and applicable anti-corruption laws and has adopted a zero-tolerance policy against all forms of bribery and corruption. The CoBE explicitly prohibits the giving and acceptance of bribes by PETRONAS employees including the giving and receiving of facilitation payments in all its business dealings. This is in line with PETRONAS' core values, business principles and various internal policies which reflect its focus on making ethics and anti-corruption an integral part of PETRONAS' business operations. In supporting the general policy statements in the CoBE, PETRONAS has developed the PETRONAS Integrity Compliance Framework (PICF) to instill and ensure compliance to all elements related to the propagation of integrity and business ethics within the business activities of the PETRONAS Group of Companies. The Anti-Bribery and Corruption Policy and Guidelines (ABC Manual) was rolled out on 19 September 2013 for Group-wide implementation, starting with PETRONAS Group Companies in Malaysia. It covers areas such as Dealing with Public Officials, Facilitation Payments, Dealing with Third-Parties, and handling of Gifts, Entertainment and Corporate Hospitality. The ABC Manual will be rolled out in phases to subsidiaries across all international jurisdictions where the PETRONAS Group operates.

Training sessions are currently being conducted for employees Group-wide to equip them with sufficient knowledge and understanding on how the ABC Manual should be interpreted and applied across the Group. As at 31 December 2015, a total of 29,436 employees have undergone face-to-face training on the ABC Manual. In 2015, three training sessions on the ABC Manual and compliance were conducted for the higher management of PETRONAS companies at the regional level in Malaysia; and one training session was held for middle management. The programme, entitled Corporate Integrity Advocacy Programme (CIAP): Setting the Tone at the Middle was conducted with the primary aim to educate middle management on the important role they play in building the culture of compliance and integrity as they will be largely responsible in setting the standards for ethical behaviour and business conduct for the entire organisation. As such, it is pertinent for middle management to set the right 'tone' as this will be cascaded down and emulated by the employees across the Group. Additionally, one compliance engagement session was held with overseas subsidiaries in 2015 and this effort will continue in 2016.

Having stated the above, PETRONAS recognises the limitation in conducting face-to-face training to all employees due to the diverse geographical location of its business. In 2015, PETRONAS introduced the PETRONAS Compliance Desktop, an integrated online compliance solution designed to effectively manage PETRONAS' Group-wide compliance programme, which includes an

online e-learning platform. A compulsory ABC Manual online training programme was rolled out via the platform in 2015, targeting PETRONAS Group employees in Malaysia.

The ABC Manual has been printed and distributed to all employees and directors of the PETRONAS Group and it is also available on PETRONAS' corporate website at http://www.petronas.com.my/about-us/governance/Pages/default.aspx.

Third Parties Working with the Company

PETRONAS' dealings with third parties must be carried out in compliance with all relevant laws and consistent with the values and principles of the CoBE and ABC Manual. As part of this commitment, all forms of bribery and corruption are unacceptable and will not be tolerated. As such, PETRONAS is highly committed in ensuring its contractors, vendors and joint venture partners comply with the standards of behaviour set out in the CoBE and ABC Manual to ensure the highest level of integrity is observed and practiced. To this end, nine Vendor Integrity Programmes were conducted in 2015 which were attended by 188 companies.

In addition, PETRONAS conducted several roundtable dialogues with its contractors, vendors and joint venture partners to share industry best practices in embedding integrity as part of the corporate culture. This platform enabled PETRONAS to share the company's best practices in ensuring good governance. Consequently, the sessions have been effective in promoting a collective action amongst PETRONAS' contractors, vendors and joint venture partners to foster ethical business practices. Additionally, PETRONAS had organised a Corporate Integrity Pledge (CIP) signing ceremony between PETRONAS Dagangan Berhad, PETRONAS Chemicals Berhad and PETRONAS Gas Berhad with their selected contractors. 33 contractors had participated in the ceremony, demonstrating their commitment against corrupt practices and signifying their resolution to work collectively towards creating a business environment that is free from corruption.

PETRONAS also strives to ensure that the values and principles important to us are embedded in all aspects of our procurement and supply chain activities. To achieve this objective, we have enhanced our third party due diligence process to ensure our contractors, vendors and joint venture partners meet our standards of integrity. In line with the above, an online third party due diligence compliance screening is targeted for roll-out in 2016, via the PETRONAS Compliance Desktop.

PETRONAS Whistleblowing Policy and Procedures

On 1 April 2012, the PETRONAS Whistleblowing Policy (Policy) was rolled-out to provide an avenue for all PETRONAS employees and members of the public to disclose any improper conduct (misconduct or criminal offence or malpractices) in accordance with the procedures as provided under the Policy.

Under the Policy, a whistleblower will be accorded with protection of confidentiality of identity, to the extent reasonably practicable. In addition, an employee who "blows the whistle" internally will also be protected against any adverse and detrimental actions for disclosing any improper conduct committed or about to be committed within PETRONAS, to the extent reasonably practicable, provided that the disclosure is made in good faith. Such protection is accorded even if the investigation later reveals that the whistleblower is mistaken as to the facts and the rules and procedures involved.

The PETRONAS Whistleblowing Committee (Committee) was set up in tandem with the Policy roll-out, to deliberate on the disclosure and decide on the next course of action as well as to monitor progress on the cases. The Committee meets at least once a month and provides updates to the Internal Audit Management Committee. In 2015, the Committee received a total of 26 disclosures. Appropriate actions have been taken on reports received via the whistleblowing channels in accordance with the Whistleblowing Procedures adopted by PETRONAS.

Buntings are displayed at prominent areas within the PETRONAS Twin Towers, and at strategic locations within the office premises of PETRONAS Group Companies, as part of the Company's ongoing efforts to promote the whistleblowing channels and to encourage the effectiveness of the Whistleblowing Policy.

The Whistleblowing Policy and Procedures is available on PETRONAS' corporate website at http://www.petronas.com.my/about-us/governance/Pages/governance/Whistleblowing-eForm.aspx.

Competition Law Compliance Programme

To date, there are more than 130 countries in the world with competition laws, including Malaysia with the passing of the Malaysian Competition Act 2010 (Competition Act) which came into force in January 2012. The recent publication of the ASEAN Economic Community Blueprint 2025 indicates ASEAN's move towards greater harmonisation of competition policy amongst the ASEAN Member States, forming the framework for regional convergence. As PETRONAS has commercial presence in ASEAN countries, such developments are important to note.

Within the CoBE, there are already specific provisions on anti-competitive practices reflecting PETRONAS' commitment to conduct its business activities in adherence with the relevant competition law legislations. To supplement the general provisions in the CoBE, PETRONAS rolled out the PETRONAS Competition Law Guidelines (the Guidelines) in 2012 to cultivate better awareness and foster an effective competition law compliance culture within the Group. The aim of the Guidelines is to ensure our employees have a practical understanding of competition law through the Guideline's user-friendly "Dos and Don'ts" and FAQs. In Malaysia, employees are required to attend face-to-face training conducted by qualified competition law trainers to instill awareness on the basic principles of competition law. PETRONAS will be rolling out an online Competition Law training programme to PETRONAS Group employees in Malaysia, via the PETRONAS Compliance Desktop, in 2016.

At the same time, the availability of in-house competition law advisors provides an avenue for PETRONAS' businesses to seek advice with regards to complex competition law matters. Several consultations and engagement sessions were also initiated with the Malaysian Competition Commission (MyCC) with respect to applications made under the Competition Act and to gain better understanding of the Act and its implications on PETRONAS' business operations. Effective 1 January 2014, PETRONAS was granted an exclusion from the Competition Act for its upstream activities in Malaysia, from the Minister of Domestic Trade, Co-operatives and Consumerism.

The Guidelines, have been printed into booklets for distribution to all employees and is also available on PETRONAS' corporate website at http://www.petronas.com.my/about-us/governance/Pages/default.aspx.

PETRONAS Raid Protocol

On 17 July 2014, the PETRONAS Raid Protocol was rolled-out to educate PETRONAS' employees on the scope and powers of competition and anti-corruption agencies whilst conducting investigations and/or raids within the premises of PETRONAS Group Companies.

Following the launch of the Raid Protocol, continuous trainings have been conducted and are still ongoing to ensure our employees are well equipped to handle and facilitate visits by the relevant authorities during a raid. Employees are also trained of his or her rights vis-à-vis the agencies' investigative powers during the conduct of a raid, how to handle officials during and after a raid, and how to mitigate PETRONAS' exposure to actual or potential enforcement action following a raid. In 2015, a series of face-to-face trainings on the Raid Protocol was rolled out to PETRONAS Group Companies in Malaysia.

STATEMENT OF CORPORATE GOVERNANCE

International Economic Sanctions and Export-Control Compliance Programme

Continuous compliance with international economic sanctions regimes and export-control regulations has been one of the top priorities for PETRONAS as part of its compliance agenda. With the global oil and gas industry continuously tasked with adapting to an ever evolving sanctions-imposed environment, it was imperative for PETRONAS to implement an effective sanctions and export-control compliance framework. This framework is targeted for roll-out at the end of 2016, and will reflect PETRONAS' position with regard to the Group's commitment to comply with international economic sanctions regimes and export-control regulations.

For the purpose of compliance, PETRONAS is monitoring the development of international economic sanctions and assessing any implications to its businesses. Since 2010, PETRONAS has established a joint-division task force overseeing the domestic export-control regime in tandem with the Malaysian Strategic Trade Act 2010. PETRONAS is also working closely with various governmental agencies responsible for matters related to international economic sanctions and export control, as well as with various international trade law experts. This relationship ensures that PETRONAS is kept abreast of issues related to international economic sanctions and export control compliance.

Personal Data Protection

With the coming into force of the Personal Data Protection Act 2010 (Act) on 15 November 2013, PETRONAS commenced a Group-wide analysis and intervention plan to ensure compliance with the Act. Practical recommendations were provided to ensure full compliance with the Act and that the principles and rights enshrined in the Act are protected and upheld. Assurance has been sought from the relevant business and operating units within PETRONAS on their commitment to ensure conformity to the Act.

Two training programmes were conducted to key stakeholders to ensure their awareness and understanding on the implementation aspects of the Act, as well as understanding cross border personal data protection compliance.

The Privacy and Security Policy in relation to the protection of personal data has been developed and will be rolled out to PETRONAS Group in 2016.

Human Rights

PETRONAS is committed to sustainable development in order to help meet the world's growing energy needs through economically, environmentally and socially responsible efforts.

In supporting the general policy statement in the CoBE, a Human Rights task force, headed by the Group Health, Safety and Environment (GHSE), was established to review existing practices and propose enhancement to relevant policies and processes. Social Risk Assessment on Human Rights have been conducted since 2014 and will be continued throughout 2016, strategically focusing on identified high-risk groups to monitor, manage and mitigate social risks in their respective business.

In line with United Nations Guiding Principles (UNGPs) on Business and Human Rights, the PETRONAS Human Rights Commitment was launched on 20 October 2015.

The Commitment states "PETRONAS is committed to respecting internationally-recognised human rights in areas of its operations, complying with its Code of Conduct and Business Ethics, and all relevant legal requirements".

To support this commitment, GHSE had developed the Social Risk Assessment Guideline, the Human Rights Due Diligence Guideline, and the Grievance Mechanism Guideline, which contains the Company's requirements, and best practices on key processes to manage Human Rights risks. The guidelines were rolled-out on 9 November 2015.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board is pleased to provide the following statement which outlines the nature and scope of risk management and internal control of Petroliam Nasional Berhad and its subsidiaries (PETRONAS Group) during the year under review.

BOARD'S RESPONSIBILITIES

The Board recognises the importance that a sound system of risk management and internal control is fundamental to good corporate governance and acknowledges its overall responsibility in overseeing PETRONAS Group's risk management and internal control framework. An effective risk management framework helps PETRONAS in achieving its performance and profitability targets by incorporating risk information for better decision making while having sound internal control system facilitates effective and efficient operation by enabling it to respond appropriately to identified risks, thus safeguarding shareholders' investment and PETRONAS Group's assets.

The PETRONAS Board Charter includes risk management and internal control oversight as one of the main functions of the Board and this is in line with the requirement for a public company to have in place a system of internal control as required under the Companies Act, 1965.

The Board is also cognisant of the fact that its role in providing risk oversight sets the tone and culture towards embedding risk management in PETRONAS activities.

PETRONAS Group has in place an ongoing process for managing principal risks affecting the achievement of its business objectives throughout the period. This includes identifying, evaluating, managing and monitoring these risks. This process has been in place for the year under review and up to the date of approval of this statement.

PETRONAS Group's system of internal control seeks to manage and control risks appropriately, rather than eliminate the risk of failure to achieve business objectives. Due to the inherent limitations in all control systems, these internal control systems can only provide reasonable and not absolute assurance against material misstatement or loss or the occurrence of unforeseeable circumstances.

RISK MANAGEMENT

Having regard to managing risk as an integral part of PETRONAS Group's activities, risk management and its ongoing improvement in strengthening the review and monitoring of all principal risks remain a key focus of the Board in building a successful and sustainable business.

The Board Governance and Risk Committee (BGRC) has been established in PETRONAS since 2011 to provide, among others, oversight and in-depth discussion on risk management matters at the Board level. The BGRC reviews risk policies, appetite, practices and principal risks as well as oversees the adequacy and effectiveness of the risk management system to monitor and manage risks in PETRONAS. A Risk Management Committee (RMC) is in place to serve as a central platform to assist the Management in identifying principal risks at the Group level and providing assurance on the effective implementation of risk management practices with guidance and directions from the PETRONAS Executive Committee and the BGRC. The RMC also promotes sound risk management practices through the sharing of information and best practices to enhance the risk culture across the Group.

Risks across the Group are being managed on an integrated basis and their evaluation is incorporated into PETRONAS Group's decision making process such as strategic planning and project feasibility studies. Separate risk management units or functions also exist within the Group at various operating unit levels, particularly for its listed subsidiaries, to assess and evaluate the risk management processes for reporting to their respective Board and Management levels.

To provide an integrated and holistic view on the overall strategy for managing risk in PETRONAS, the PETRONAS Resiliency Model focuses on three areas of business resilience namely Enterprise Risk Management (ERM), Crisis Management (CM) and Business Continuity Management (BCM). It is supported by the establishment of risk policy, frameworks and relevant guidelines to govern and institutionalise risk management across the Group.

Enterprise Risk Management

Enterprise Risk Management (ERM) process is an integral part of managing business that provides a guide to systematically identify, assess, treat, monitor and review risks. It aims to improve the ability to reduce the likelihood and impact of identified risks that may affect the achievement of business objectives.

Risk profiles developed through the ERM process are established and monitored at Corporate and across the Group (i.e. Holding Company Units, Business Units and Operating Units) consist of identified principal risks with corresponding risk mitigations and key risk indicators. It allows actions to be taken to ensure that risks are being effectively managed by respective units and reported to their respective Management and Board on a quarterly basis.

Crisis and Business Continuity Management

Crisis Management defines the structure and processes for managing emergencies including crises at both domestic and international operations.

There is a three-tier response system in place which provides a clear demarcation of roles and responsibilities between emergency site management, operating unit management, corporate and authorities. Drills and exercises are carried out at facility/asset level to ensure readiness in the event of an emergency or crisis. Business Continuity Plan (BCP) is also in place to ensure business continuity in the event of a crisis or prolonged business disruption.

The above integrated crisis management and business continuity plans seek to enhance PETRONAS Group's preparedness to respond and reduce the impact of crises as well as recover and restore the Group's critical functions within a reasonable period of time towards sustaining the Group's activities and minimising disruptions to stakeholders.

INTERNAL AUDIT

The Board recognises that the internal audit function is an integral component of the governance process. PETRONAS' Internal Audit functions support the Board Audit Committees (BAC) in their responsibilities by providing an independent and objective assurance designed to add value and improve PETRONAS Group's operations.

PETRONAS' Group Internal Audit's (GIA) key functions are to assist the Group in accomplishing its goals by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes within the Group.

GIA maintains its impartiality, proficiency and due professional care, as outlined in its Internal Audit Charter, by having its plans and reports directly under the purview of the BAC. Within the PETRONAS Group, there are other Internal Audit functions that reside at identified key subsidiaries (including those that are public listed) that provide an independent and objective assurance to support their respective BACs.

The internal audit function performs independent audits in diverse areas within the PETRONAS Group including management, accounting, financial and operational activities, in accordance with the risk-based annual audit plan which is presented to the BAC for approval. Internal controls of joint ventures and associated companies may be reviewed through shareholders' and Joint Venture (JV) audits or upon specific request by the BAC.

GIA monitors the status of agreed corrective actions through Quarterly Audit Status Report (QASR) submitted by the auditees which will be assessed and verified by GIA. The consolidated QASR is submitted and presented to the BAC for deliberation. The BAC reviews reports on all internal audits performed under its purview, including the agreed corrective actions to be undertaken by the auditees' management.

The internal audit processes and activities are guided by the approved Internal Audit Charter and aligned with internal audit industry standards i.e. The International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA).

GIA also undertakes to ensure that the staff are competent and adequately equipped in carrying out their duties and responsibilities by putting in place development programmes and providing sufficient and relevant trainings.

INTERNAL CONTROL ELEMENTS

FINANCIAL

Budget Approval

Budgets are an important internal control mechanism used by PETRONAS Group to ensure an agreed allocation of Group resources and that the operational managers are sufficiently guided in making business decisions. The Group performs a comprehensive annual planning and budgeting exercise including the development and validation of business strategies for a rolling five-year period, and establishment of performance indicators against which Business Units and subsidiary companies are evaluated.

Variances against the budgets are analysed and reported to the Board on a quarterly basis. PETRONAS Group's strategic directions are also reviewed at reasonable intervals taking into account changes in market conditions and significant business risks.

Limits of Authority

The Limits of Authority (LOA) defines decision making limits for each level of management within the PETRONAS Group, setting out a clear line of accountability and responsibility and identifying the approving authority for the various business transactions including matters that require Board approval. This provides a framework of authority and accountability within PETRONAS Group and facilitates decision making at the appropriate level in the organisation's hierarchy.

Financial Control Framework

PETRONAS Group has a Financial Control Framework (FCF) with the principal objective of enhancing the quality of PETRONAS Group's financial reports through a structured process of ensuring the adequacy and effectiveness of key internal controls operating at various levels within the Group at all times. The FCF requires, among others, documentation of key controls, remediation of control gaps as well as a regular testing of control operating effectiveness. On a semi-annual basis, each key process owner at various management levels is required to complete and submit a Letter of Assurance which provides confirmation of compliance to key controls for the areas of the business for which they are accountable.

Corporate Financial Policy

The Corporate Financial Policy (CFP) prescribes PETRONAS Group's governing policies in effecting consistent practice of financial management, as well as forms the foundation upon which financial risk exposures are identified and strategies to manage such risks are developed.

The Group Financial Risk Management Department (GFRMD), as the Corporate Financial Risk function, performs the risk oversight and supervisory role for PETRONAS and PETRONAS Group's financial risk management. This provides assurance that financial risk management practices are implemented across the Group in accordance to the requirements of CFP, whilst enabling visibility on PETRONAS Group's key financial risk exposures for improved risk management. The GFRMD's risk oversight across the Group is achieved in collaboration with the risk management function of each individual subsidiary of PETRONAS Group, through the provision of policy direction and specification of operational parameters, review and monitoring key exposures, prescription of reporting requirements, prescription and application of consistent financial risk methodology as well as baseline financial risk management procedures and compliance practices. Significant matters concerning financial management and financial risk management are escalated to Management and BGRC for direction and action.

PROCUREMENT

Procurement governance and internal controls are implemented based on PETRONAS Tender and Contract Administrative Manual duly established for Group-wide adoption and implementation.

PETRONAS Group has clearly defined authorisation procedures and authority limits set for awarding tenders and all procurement transactions covering both capital and revenue expenditure items. Tender committees with cross functional representation have been established to provide the oversight functions on tendering matters and as a platform to present the risks pertaining to the tender prior to approval by the approving authorities as set out in the LOA's approved by the Board or the Boards of the Operating Units.

HEALTH, SAFETY & ENVIRONMENT

PETRONAS Group HSE Policy is supported by a HSE Mandatory Control Framework (MCF) to strengthen the HSE governance within the Group. The MCF includes clear requirements on health, operational safety, and environment for consistent and effective Group-wide implementation. Key HSE focus areas include process safety, project HSE and HSE capability development.

HSE assurance is carried out to provide independent assurance on the effectiveness of HSE controls and the assurance reports are presented to the BAC. Business Units and Operating Units carry out HSE Assurances to ensure compliance to regulatory requirements and HSE procedures. Reports are presented to their respective Management Committees. Group HSE performance has been presented to the PETRONAS Board for oversight during the year.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INFORMATION & COMMUNICATION TECHNOLOGY (ICT)

PETRONAS is governed by the PETRONAS Information Security Policies and Baselines. This is supplemented by the Enforce Information Security initiative to protect PETRONAS digital information. ICT governance is led by the Chief Information Officer (CIO) Council that deliberates and decides on all matters related to strategy, investments, policies, programmes, project prioritisations and performance review of ICT.

Group ICT also has in place a Disaster Recovery Plan (DRP) for identified critical business applications. Scheduled drills and exercises are conducted annually to ensure readiness in the event of ICT disaster recovery activation.

PETRONAS Information Security processes are accredited by the International Organisation for Standardisation (ISO) 27001:2013 – Information Security Management System Standard.

HUMAN CAPITAL

Organisational Structure

The internal control of PETRONAS Group is realised and supported by a formal organisational structure. This official structure is made up of delineated lines of authority, responsibility and accountability. These lines of authority, responsibility and accountability are continuously and transparently updated and improved to exemplify good governance. Such measures are committed to reflect current business environment as well as to comply with domestic and international regulatory and legislative demands.

Employees

Senior Management sets the tone for a nurturing culture in the organisation through PETRONAS Group's Shared Values. The Shared Values were developed to focus on the importance of four key values – loyalty, professionalism, integrity and cohesiveness. These values are and continue to be critical elements of the culture that PETRONAS Group cultivates and upholds in the organisation. Furthermore, the importance of the Shared Values is manifested in the Code of Conduct and Business Ethics (CoBE). Employees are required to strictly adhere to CoBE in discharging all their duties and obligations, without compromise.

A Whistleblowing Policy is in place and provides a viable and discreet avenue for all employees of PETRONAS as well as members of the public to disclose any improper conduct committed or are about to be committed within the Group. This policy addresses the Group's commitment to the propagation of integrity and ethical mindset and behaviour by fostering and maintaining an environment where employees act appropriately, without fear of retaliation. Under the policy, a whistleblower will be accorded with protection of confidentiality of identity, to a degree reasonably practicable. In addition, an employee who whistleblows internally will also be protected against any adverse and detrimental actions for making the disclosure, to a degree reasonably practicable, provided that the disclosure is made in good faith. Protection is accorded even if the investigation subsequently reveal that the whistleblower(s) is erroneous as to the facts, rules and procedures involved in his, her or their complaint.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

A No Gift Policy is in place and clearly states that PETRONAS employees are required to act in the best interests of the organisation and to refrain from engaging in explicit and implicit conduct which may affect the best interests of PETRONAS Group. The policy prohibits employees from giving or receiving personal gifts from external parties to avoid conflicts of interest or the appearance of conflicts of interest in any ongoing or potential business dealings of the Group.

As part of creating and managing a capable and market driven workforce, employees are provided with structured training, mobility opportunities and development programmes. Potential entrants or candidates are subjected to a structured recruitment process.

To move with the times, the existing performance management standard has been refined and updated to the Employee Performance Management (EPM) system. The objective of EPM is to shape and sustain a High Performance Culture in PETRONAS in order to enable consistent engagement with employees to ensure delivery of superior business results. Under the EPM system, coaching, review and feedback are conducted on semi-annual basis to accelerate the journey towards becoming a High Performing Organisation. Action plans to address employee developmental requirements are discussed and formulated, prior to being deployed to ensure holistic and wholesome results. PETRONAS Group believes that this will inspire employees to deliver their best so that PETRONAS can meet its challenging business requirements.

CONCLUSION

The Board has received assurance from the President & Group Chief Executive Officer (CEO) and the Executive Vice President & Group Chief Finance Officer (CFO) that PETRONAS Group's financial records are properly maintained and that risk management and system of internal control is operating adequately and effectively in addressing the material risk within the Group in its current business environment.

The Board is of the view that risk management and internal control instituted throughout the Group is sound and provides a level of confidence but not absolute assurance that PETRONAS Group is not affected by any event that cannot be reasonably foreseen. In the year under review, there was no significant control failure or weakness that would have resulted in material losses, contingencies or uncertainties requiring separate disclosure in the Annual Report.

This statement is made in accordance with the resolution of the Board of Directors dated **25 February 2016**.

GLOSSARY

INDUSTRY TERMS AS GENERALLY UNDERSTOOD

A

Additives
Chemicals added in small quantities to fuel or lubricants to control engine deposits and improve lubricating performance.

B

Barrel
A standard unit of measurement for oil production. One barrel contains 159 litres of oil.

Barrels of Oil Equivalent (boe)
A unit of measurement to quantify the amount of crude oil, condensates and natural gas. Natural gas volumes are converted to barrels on the basis of energy content.

Base Oil
An oil to which other oils or additives are added to produce a lubricant. This includes Group III base oil that has been subjected to the highest level of refining of the base oil groups, offering very high viscosity index to produce premium quality lubricants.

Basin
A low-lying area beneath the Earth's surface filled with thick layers of sediment, often a source of valuable hydrocarbons.

Brent Price
The benchmark crude oil price in Europe, as traded on the International Petroleum Exchange in London. Brent crude refers to a particular grade of crude oil, which is slightly heavier than WTI crude. See **WTI price**.

C

CO_2
Carbon dioxide, one of the primary greenhouse gases.

Coal Bed Methane
A form of natural gas extracted from coal beds, as opposed to the conventional natural gas found in reservoirs.

Condensates
Liquid hydrocarbons produced with natural gas, separated by cooling and other means.

D

Deadweight Tonne (dwt)
A ship's maximum carrying capacity in tonnes of cargo, including passengers, crew, stores, ballast and fuel.

Deepwater
In Malaysia offshore exploration, deepwater is demarcated at water depths exceeding 200 m. Unique methods are required to produce the oil and gas from the ocean bed at such depths. See **Floating Production Unit**.

Development
Drilling, construction and related activities following discovery that are necessary to begin production and transportation of crude oil and natural gas.

Dividend Payout Ratio
Dividend paid during the year as a percentage of previous year's net profit attributable to PETRONAS shareholders.

Downstream
All segments of a value chain that add value to the crude oil and natural gas produced, for example, oil refining, gas processing, gas liquefaction, petrochemical manufacturing, marketing of petroleum and petrochemical products, storage and transportation.

E

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)
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.

Energy Loss Management (ELM)
An initiative to improve energy efficiency and reduce greenhouse gas (GHG) emissions.

Enhanced Oil Recovery (EOR)
Any method(s) applied to productive reservoirs in order to increase production rates and to improve the overall recovery factor.

Exploration
The search for crude oil and/or natural gas by geological and topographical studies, geophysical and seismic surveys, and drilling of wells.

F

Feed-in-Tariff (FiT)
Malaysia's FiT system is a policy mechanism designed to accelerate investment in renewable energy technologies. It requires Distribution Licensees (DLs) to buy electricity produced from renewable resources from Feed-in Approval Holders (FIAHs) and sets the rate. The DLs will pay for renewable energy supplied to the electricity grid for a specific duration. The goal of FiT is to offer cost-based compensation to renewable energy producers, providing the price certainty and long-term contracts that help finance renewable energy investments.

Field
A geographical area overlying a hydrocarbon reservoir.

F

Floating Liquefied Natural Gas (FLNG)
Either a ship or barge that can sail or be towed to offshore gas fields, extract gas, freeze it to Liquefied Natural Gas (LNG) and offload the LNG to carriers for shipping.

Floating Production Unit (FPU)
Floating structures of various designs used in offshore production. These 'floaters' replace traditional fixed platforms and they are moored to the ocean bed. FPU is more commonly used in deepwater. See **Deepwater**.

Floating Production, Storage and Offloading (FPSO)
A converted or custom-built ship-like structure, with modular facilities to process oil and gas and for temporary storage of the oil prior to transfer to carriers/tankers.

Floating, Storage and Offloading (FSO)
A converted or custom-built ship-like structure for temporary storage of the oil prior to transfer to tankers.

Floating Storage Unit (FSU)
A converted or custom-built ship-like structure to receive and store LNG.

G

Gas Processing
An activity to turn streams of natural gas into commercial products, in addition to treating gas deposits.

Gas-to-Liquids (GTL)
A refinery process to convert natural gas or other gaseous hydrocarbons into longer chain hydrocarbons, such as gasoline or diesel fuel. It is used predominantly in the creation of high-quality transportation fuels.

Gearing Ratio
Total adjusted debt expressed as a percentage of adjusted debt and total equity. Total adjusted debt is the total debt including provision for decommissioning of assets.

GLOSSARY

G

Greenhouse Gases (GHG)
Gases that trap heat in the Earth's atmosphere, e.g. carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

H

Heavy Oil/Bitumen
Unlike conventional crude oil that can be pumped without being heated or diluted, heavy oil is oil that cannot be extracted in its natural state via a well and conventional production methods. This definition is also applicable to bitumen.

High Pressure High Temperature Well
Well with a surface shut-in pressure greater than 10,000 psi and a bottomhole temperature greater than 150ºC.

Heads of Agreement (HOA)
A non-binding document outlining the main issues relevant to a tentative partnership agreement. HOA represents the first step on the path to a full legally binding agreement or contract, and serves as a guideline for the roles and responsibilities of the parties involved in a potential partnership before any binding documents are drawn up.

I

Integrated Oil and Gas Company
A company that engages in all aspects of the oil and gas industry - exploring for and producing crude oil and natural gas (upstream); refining, marketing and transporting crude oil, natural gas and refined products (downstream); as well as manufacturing and distributing petrochemicals.

Ionic Liquids
Liquids that comprise entirely of positive and negatively charged ions. Ionic liquids are being explored for an array of applications, e.g. as environmentally friendly substitutes for volatile organic compounds in the oil and gas industry.

Improved Oil Recovery (IOR)
Improved Oil Recovery that is commonly used to describe any process, or combination of processes, that may be applied to economically increase the cumulative volume of oil that is ultimately recovered from the reservoir at an accelerated rate. IOR may include chemical, mechanical, physical, or procedural processes.

Improved Gas Recovery (IGR)
Refers to the recovery of gas by injection of fluids beyond the normal recovery through conventional methods. In recent times, carbon dioxide is used as a lubricant fluid to recover additional gas from the reservoir and thereby provides an avenue for storing the captured carbon dioxide.

J

Joint-Venture
A partnership between two or more companies to undertake a specific project and share the resulting profit and loss.

GLOSSARY

L

Liquefied Natural Gas (LNG)
Natural gas that is liquefied under extremely cold temperatures of about minus 260 degrees Fahrenheit to facilitate storage or transportation in specially designed vessels.

Liquefied Petroleum Gas (LPG)
Light gases, such as butane and propane, that can be maintained as liquids while under pressure.

Lost Time Injury (LTI)
This is defined as an occurrence that results in a fatality, permanent total disabilities, permanent partial disabilities or time lost from work including days off, off shift, weekends or public holidays.

Lost Time Injury Frequency (LTIF)
This refers to the total LTI cases per million exposure hours worked during the period.

Lubricant
A substance to reduce friction and wear among moving surfaces, resulting in improved efficiency. It contains about 90 per cent base oil and about 10 per centadditives.

M

Million Metric British Thermal Unit (mmBtu)
It measures the energy content in fuel and is used in the power, steam generation, heating and air conditioning industries.

Million Metric Standard Cubic Feet per Day (mmscfd)
It is a unit of measurement for natural gas. Liquefied Petroleum Gas (LPG), compressed natural gas and other gases that extracted, processed or transported in high quantities.

Mobile Offshore Production Unit (MOPU)
It is a self-installing and re-usable production jack-ups.

Million Tonnes per Annum (mtpa)
It is a standard measurement of output for the year.

N

Natural Gas
A clean-burning, odourless, colourless, highly compressible mixture of hydrocarbons found occurring naturally in gaseous form. Natural gas is made up of methane but may also include ethane, propane and butane.

Naphtha
Usually an intermediate product between gasoline and benzene, naphtha is a colourless and volatile petroleum distillate used as a solvent or fuel.

O

Original Equipment Manufacturer (OEM)
Refers to a company that acquires a product or component, then reuses or incorporates it into a new product with its own brand name.

Olefins
A class of unsaturated open-chain hydrocarbons such as ethylene, having the general formula CnH2n; an alkene with only one carbon-carbon double bond.

Operational Performance Improvement (OPI)
A set of tools and methodologies that emphasise on instilling operational discipline, with the aim of improving operational excellence of PETRONAS' producing assets.

P

Peninsular Gas Utilisation System (PGU)
The PGU system was developed to spearhead the use of natural gas in Malaysia. The natural gas produced from offshore Terengganu is processed in six Gas Processing Plants in Kertih and are then fed into a 2,505 km pipeline system that delivers natural gas to the power, industrial, petrochemical and other sectors throughout Peninsular Malaysia and Singapore.

GLOSSARY

GLOSSARY

P

Petrochemicals
Organic and inorganic compounds and mixtures derived from petroleum, used principally to manufacture chemicals, plastics and resins, synthetic fibres, detergents, adhesives and synthetic motor oils.

Production Sharing Contract (PSC)
A contractual agreement between a company and a host government, whereby the company bears all exploration, development and production costs in return for an agreed-upon share of production.

PAT Margin
Profit after tax expressed as a percentage of total revenue.

R

Regasification Terminal (RGT)
RGT, also known as a receiving terminal, is usually a coastal plant that accepts deliveries of LNG and processes it back into gaseous form for injection into a pipeline system.

Refining
A purification process for natural resources which includes hydrocarbons, using distillation, cooling and/or compression.

Return on Average Capital Employed
Adjusted profit after taxation expressed as a percentage of average total equity and long-term debt during the year.

Return on Total Assets
Earnings before interest expense, interest income and tax expressed as a percentage of total assets.

Renewable Energy
Energy derived from natural sources that are replaceable.

R

Reserves
Hydrocarbons which are anticipated to be recovered from known accumulations of hydrocarbons.

Reservoir
Any porous and permeable rock (usually sandstone or limestone/chalk and occasionally a normally impermeable rock which has been heavily fractured), thus providing interconnecting spaces through which oil/gas can flow.

Resources
Resources are defined as the total estimated quantities of petroleum at a specific date to be contained in, or that have been produced from known accumulations of hydrocarbon.

Resource Replenishment Ratio
Figures reported are calculated based on a formula of (Difference of Resource Base of current year and previous year + Production Volume of previous year)/(Production Volume of previous year).

Risk Service Contract (RSC)
In the context of this report, RSC refers to a petroleum arrangement between PETRONAS and any other company for the appraisal, development and/or production of petroleum in a contract area on behalf of PETRONAS whereby the PA Contractors are remunerated on a set based on achieved Key Performance Indicators consisting of the agreed Cost, Schedule and Production level.

S

Seismic Data
The collection of stratigraphic data obtained by creating shockwaves through the rock layers. Reflection of these waves from anomalies within the rock layers are electronically recorded at surface. These recordings are then analysed to produce a stratigraphic representation of the surveyed area, which helps to deduce the structure of the underlying rock layers.

Shale Gas
Natural gas found in shale rock derived from underground shale deposits that are broken up by hydraulic fracturing. The process is needed to produce gas in commercial quantities as shale has low matrix permeability.

T

Throughput
The amount of output produced by a system, e.g. a refinery, plant, or pipeline, in a given period of time.

Total Recordable Case (TRC)
The sum of injuries resulting in fatalities, permanent total disabilities, permanent partial disabilities, lost work day cases, restricted work cases and medical treatment cases, but excluding first aid cases.

Total Recordable Case Frequency (TRCF)
This refers to the number of total recordable cases per million exposure hours worked during the period.

U

Unconventional Oil and Gas
Oil and gas that cannot be produced or extracted using conventional methods.

Upstream
The segment of value chain pertaining to finding, developing and producing crude oil and natural gas. These include oil and gas exploration, development and production operations; also known as Exploration & Production (E&P).

W

WTI Price
Stands for West Texas Intermediate, the benchmark crude oil price in the US measured in USD per barrel, which refers to a type of high quality light crude oil.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

for the year ended 31 December 2015

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Company in the course of the financial year remained unchanged and consist of exploitation of oil and gas, the marketing of petroleum and petroleum products and investment holding. The principal activities of key subsidiaries, associates and joint ventures are stated in note 42, note 43 and note 44 to the financial statements respectively.

RESULTS

In RM Mil	Group	Company
Profit for the year	20,860	55,355
Attributable to:		
Shareholders of the Company	13,158	55,355
Non-controlling interests	7,702	–

DIVIDENDS

During the financial year, the Company paid:

(i) a second tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM40,000 per ordinary share amounting to RM4 billion in respect of the financial year ended 31 December 2014.

(ii) a final tax exempt dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM220,000 per ordinary share amounting to RM22 billion in respect of the financial year ended 31 December 2014.

The Directors propose a tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM160,000 per ordinary share amounting to RM16 billion in respect of the financial year ended 31 December 2015 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 2016.

RESERVES AND PROVISIONS

There were no material movements to and from reserves and provisions during the year other than as disclosed in the financial statements.

DIRECTORS OF THE COMPANY

Directors who served since the date of the last report are:

Tan Sri Mohd Sidek bin Hassan (Chairman)
Datuk Wan Zulkiflee bin Wan Ariffin
Datuk Mohd Omar bin Mustapha
Tan Sri Dato' Seri Hj Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas
Datuk Muhammad bin Ibrahim
Dato' Mohamad Idris bin Mansor
Datin Yap Siew Bee
Krishnan C K Menon
Dato' Wee Yiaw Hin @ Ong Yiaw Hin
Tan Sri Amirsham bin Abdul Aziz
Tan Sri Dr. Mohd Irwan Serigar bin Abdullah
Datuk Manharlal A/L Ratilal *(appointed on 8 May 2015)*
Md Arif bin Mahmood *(appointed on 8 May 2015)*
Tan Sri Zarinah Sameehah binti Anwar *(appointed on 17 August 2015)*
Dato' Sharifah Sofianny binti Syed Hussain *(appointed on 1 October 2015)*
Tan Sri Dato' Seri Shamsul Azhar bin Abbas *(resigned on 31 March 2015)*
Khodijah binti Abdullah (alternate to Tan Sri Dr. Mohd Irwan Serigar bin Abdullah) *(appointed on 12 October 2015)*
Dato' Siti Halimah binti Ismail (alternate to Tan Sri Dr. Mohd Irwan Serigar bin Abdullah) *(resigned on 26 June 2015)*

DIRECTORS' INTERESTS

The Directors in office at the end of the year who have interests in the shares of the Company's related corporations other than wholly-owned subsidiaries (including the interests of the spouses and/or children of the Directors who themselves are not directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM1.00 each in PETRONAS Gas Berhad			
Name	Balance at 1.1.2015	Bought	Sold	Balance at 31.12.2015
Datin Yap Siew Bee	7,000	–	–	7,000
Tan Sri Amirsham bin Abdul Aziz:				
– others	2,000	–	–	2,000

	Number of ordinary shares of RM1.00 each in PETRONAS Dagangan Berhad			
Name	Balance at 1.1.2015	Bought	Sold	Balance at 31.12.2015
Tan Sri Amirsham bin Abdul Aziz:				
– others	2,000	–	–	2,000

DIRECTORS' REPORT

for the year ended 31 December 2015 (continued)

DIRECTORS' INTERESTS (CONTINUED)

Name	Number of ordinary shares of RM0.10 each in PETRONAS Chemicals Group Berhad Balance at 1.1.2015	Bought	Sold	Balance at 31.12.2015
Datuk Wan Zulkiflee bin Wan Ariffin	20,000	–	–	20,000
Datuk Mohd Omar bin Mustapha	10,000	–	–	10,000
Tan Sri Dato' Seri Hj Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas	20,000	–	–	20,000
Datuk Muhammad bin Ibrahim	20,000	–	–	20,000
Dato' Mohamad Idris bin Mansor	10,000	–	(10,000)	–
Datin Yap Siew Bee	20,000	–	–	20,000
Krishnan C K Menon	20,000	–	–	20,000
Dato' Wee Yiaw Hin @ Ong Yiaw Hin	20,000	–	–	20,000
Datuk Manharlal A/L Ratilal	20,000	–	–	20,000
Md Arif bin Mahmood	20,000	–	–	20,000

Name	Number of ordinary shares of RM1.00 each in MISC Berhad Balance at 1.1.2015	Bought	Sold	Balance at 31.12.2015
Tan Sri Amirsham bin Abdul Aziz:				
– own	11,600	–	–	11,600
– others	4,000	–	–	4,000

Name	Number of ordinary shares of RM0.50 each in Malaysia Marine and Heavy Engineering Holdings Berhad Balance at 1.1.2015	Bought	Sold	Balance at 31.12.2015
Datuk Wan Zulkiflee bin Wan Ariffin	10,000	–	–	10,000
Tan Sri Amirsham bin Abdul Aziz:				
– own	6,000	–	–	6,000
– others	6,000	–	–	6,000

Name	Number of ordinary shares of RM1.00 each in KLCC Property Holdings Berhad Balance at 1.1.2015	Bought	Sold	Balance at 31.12.2015
Datuk Manharlal A/L Ratilal	5,000	–	–	5,000

None of the other Directors holding office at 31 December 2015 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements), by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have significant financial interests in companies which transacted with certain companies within the Group in the ordinary course of business.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

ISSUE OF SHARES

There were no changes in the issued and paid up capital of the Company during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts, and

(ii) any current assets which were unlikely to realise, in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company, had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or

(ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

(iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

DIRECTORS' **REPORT**

for the year ended 31 December 2015 (continued)

OTHER STATUTORY INFORMATION (CONTINUED)

At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

(ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2015 have not been substantially affected by any item, transaction or event of a material and unusual nature other than impairment losses on certain property, plant and equipment as disclosed in note 27 to the financial statements, nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors
in accordance with a resolution of the Directors:

Tan Sri Mohd Sidek bin Hassan

Datuk Wan Zulkiflee bin Wan Ariffin

Kuala Lumpur,
Date: 25 February 2016

STATEMENT BY **DIRECTORS**

In the opinion of the Directors, the financial statements set out on pages 165 to 286, are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31 December 2015 and of their financial performance and cash flows for the year ended on that date.

Signed on behalf of the Board of Directors
in accordance with a resolution of the Directors:

Tan Sri Mohd Sidek bin Hassan

Datuk Wan Zulkiflee bin Wan Ariffin

Kuala Lumpur,
Date: 25 February 2016

STATUTORY **DECLARATION**

I, Datuk Manharlal Ratilal, the officer primarily responsible for the financial management of **PETROLIAM NASIONAL BERHAD**, do solemnly and sincerely declare that the financial statements set out on pages 165 to 286 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
Datuk Manharlal Ratilal at **Kuala Lumpur**
in **Wilayah Persekutuan** on 25 February 2016.

BEFORE ME:

PESURUHJAYA SUMPAH
No. W 530
TAN SEOK KETT
MALAYSIA

Lot 330, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

as at 31 December 2015

In RM Mil	Note	2015	2014
ASSETS			
Property, plant and equipment	3	**310,268**	261,286
Investment properties	4	**10,177**	10,539
Land held for development	5	**2,665**	1,792
Prepaid lease payments	6	**1,027**	1,037
Investments in associates	8	**5,441**	3,207
Investments in joint ventures	9	**7,577**	9,259
Intangible assets	10	**34,304**	30,127
Long term receivables	11	**13,779**	12,663
Fund and other investments	12	**7,373**	7,734
Deferred tax assets	14	**11,811**	7,825
TOTAL NON-CURRENT ASSETS		**404,422**	345,469
Trade and other inventories	15	**12,838**	13,431
Trade and other receivables	16	**44,979**	47,838
Assets classified as held for sale	17	**354**	2,288
Fund and other investments	12	**8,583**	11,635
Cash and cash equivalents	18	**120,731**	116,826
TOTAL CURRENT ASSETS		**187,485**	192,018
TOTAL ASSETS		**591,907**	537,487
EQUITY			
Share capital	19	**100**	100
Reserves	20	**374,776**	354,568
Total equity attributable to shareholders of the Company		**374,876**	354,668
Non-controlling interests	21	**40,776**	37,261
TOTAL EQUITY		**415,652**	391,929
LIABILITIES			
Borrowings	22	**53,939**	30,072
Deferred tax liabilities	14	**14,526**	12,933
Other long term liabilities and provisions	24	**35,125**	31,352
TOTAL NON-CURRENT LIABILITIES		**103,590**	74,357
Trade and other payables	25	**65,219**	60,125
Borrowings	22	**3,963**	6,762
Taxation		**3,483**	4,314
TOTAL CURRENT LIABILITIES		**72,665**	71,201
TOTAL LIABILITIES		**176,255**	145,558
TOTAL EQUITY AND LIABILITIES		**591,907**	537,487

The notes set out on pages 176 to 286 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF **PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

for the year ended 31 December 2015

In RM Mil	Note	2015	2014
Revenue		**247,657**	329,148
Cost of revenue		**(176,680)**	(216,424)
Gross profit	26	**70,977**	112,724
Selling and distribution expenses		**(5,352)**	(5,146)
Administration expenses		**(27,570)**	(32,338)
Other expenses		**(3,618)**	(3,193)
Other income		**4,535**	6,563
Operating profit	27	**38,972**	78,610
Financing costs		**(3,327)**	(2,656)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures		**1,038**	1,737
Profit before taxation		**36,683**	77,691
Tax expense	28	**(15,823)**	(30,078)
Profit for the year		**20,860**	47,613
Other comprehensive income/(expenses)			
Items that may be reclassified subsequently to profit or loss			
Net movements from exchange differences		**30,377**	8,030
Available-for-sale financial assets			
– Changes in fair value		**(889)**	(1,882)
– Transfer to profit or loss		**1,637**	327
Others		**375**	109
Total other comprehensive income for the year		**31,500**	6,584
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**52,360**	54,197
Profit attributable to:			
Shareholders of the Company		**13,158**	37,038
Non-controlling interests		**7,702**	10,575
PROFIT FOR THE YEAR		**20,860**	47,613
Total comprehensive income attributable to:			
Shareholders of the Company		**41,289**	42,831
Non-controlling interests		**11,071**	11,366
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**52,360**	54,197

The notes set out on pages 176 to 286 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

for the year ended 31 December 2015

		Attributable to shareholders of the Company			
		Non-distributable			
In RM Mil	Note	Share Capital	Capital Reserves	Foreign Currency Translation Reserve	Available-for-sale Reserve
Balance at 1 January 2014		100	13,527	7,010	1,456
Net movements from exchange differences		–	–	7,240	–
Available-for-sale financial assets:					
– Changes in fair value		–	–	–	(1,881)
– Transfer to profit or loss		–	–	–	373
Other comprehensive income		–	61	–	–
Total other comprehensive income/(expenses) for the year		–	61	7,240	(1,508)
Profit for the year		–	–	–	–
Total comprehensive income/(expenses) for the year		–	61	7,240	(1,508)
Additional issuance of shares to non-controlling interests		–	–	–	–
Acquisition of a subsidiary		–	–	–	–
Disposal of subsidiaries		–	34	–	–
Dividends	29	–	–	–	–
Total transactions with shareholders		–	34	–	–
Balance at 31 December 2014		100	13,622	14,250	(52)

continue to next page

The notes set out on pages 176 to 286 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

for the year ended 31 December 2015 (continued)

In RM Mil	Note	Attributable to shareholders of the Company — Distributable: General Reserve	Retained Profits	Total	Non-controlling Interests	Total Equity
Balance at 1 January 2014		12,000	301,710	335,803	36,502	372,305
Net movements from exchange differences		–	–	7,240	790	8,030
Available-for-sale financial assets:						
– Changes in fair value		–	–	(1,881)	(1)	(1,882)
– Transfer to profit or loss		–	–	373	(46)	327
Other comprehensive income		–	–	61	48	109
Total other comprehensive income/(expenses) for the year		–	–	5,793	791	6,584
Profit for the year		–	37,038	37,038	10,575	47,613
Total comprehensive income/ (expenses) for the year		–	37,038	42,831	11,366	54,197
Additional issuance of shares to non-controlling interests		–	–	–	171	171
Acquisition of a subsidiary		–	–	–	36	36
Disposal of subsidiaries		–	–	34	(184)	(150)
Dividends	29	–	(24,000)	(24,000)	(10,630)	(34,630)
Total transactions with shareholders		–	(24,000)	(23,966)	(10,607)	(34,573)
Balance at 31 December 2014		12,000	314,748	354,668	37,261	391,929

continued from previous page

In RM Mil	Note	Attributable to shareholders of the Company — Non-distributable: Share Capital	Capital Reserves	Foreign Currency Translation Reserve	Available-for-sale Reserve
Balance 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	29	**–**	**–**	**–**	**–**
Total transactions with shareholders		**–**	**4**	**(63)**	**–**
Balance at 31 December 2015		**100**	**13,904**	**41,293**	**695**

continue to next page

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

for the year ended 31 December 2015 (continued)

In RM Mil	Note	Attributable to shareholders of the Company — Distributable: General Reserve	Retained Profits	Total	Non-controlling Interests	Total Equity
Balance 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	29	–	(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**

continued from previous page

The notes set out on pages 176 to 286 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF **CASH FLOWS**

for the year ended 31 December 2015

In RM Mil	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		**243,496**	329,840
Cash paid to suppliers and employees		**(157,040)**	(193,826)
		86,456	136,014
Interest income from fund and other investments		**3,399**	3,697
Interest expenses paid		**(2,473)**	(1,820)
Taxation paid		**(17,741)**	(34,292)
Net cash generated from operating activities		**69,641**	103,599
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	30	**(60,813)**	(57,581)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	31	**(16,254)**	(47,546)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(7,426)**	(1,528)
(INCREASE)/DECREASE IN DEPOSITS RESTRICTED		**(207)**	28
NET FOREIGN EXCHANGE DIFFERENCES		**10,927**	1,792
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**116,727**	116,435
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**120,021**	116,727
CASH AND CASH EQUIVALENTS			
Cash and bank balances and deposits	18	**120,731**	116,826
Short term marketable securities	12	**–**	400
Bank overdrafts	22	**(148)**	(144)
		120,583	117,082
Less: Deposits restricted	18	**(562)**	(355)
		120,021	116,727

The notes set out on pages 176 to 286 are an integral part of these financial statements.

STATEMENT OF **FINANCIAL POSITION**

as at 31 December 2015

In RM Mil	Note	2015	2014
ASSETS			
Property, plant and equipment	3	**18,742**	12,338
Investments in subsidiaries	7	**70,477**	63,368
Investments in associates	8	**302**	302
Investments in joint ventures	9	**1,460**	1,460
Long term receivables	11	**157,907**	124,372
Fund and other investments	12	**6,991**	7,523
Deferred tax assets	14	**7,030**	5,730
TOTAL NON-CURRENT ASSETS		**262,909**	215,093
Trade and other inventories	15	**215**	469
Trade and other receivables	16	**16,547**	23,196
Assets classified as held for sale	17	**50**	17
Fund and other investments	12	**4,016**	7,502
Cash and cash equivalents	18	**67,760**	55,443
TOTAL CURRENT ASSETS		**88,588**	86,627
TOTAL ASSETS		**351,497**	301,720
EQUITY			
Share capital	19	**100**	100
Reserves	20	**264,286**	235,078
TOTAL EQUITY		**264,386**	235,178
LIABILITIES			
Borrowings	22	**40,533**	15,673
Other long term liabilities and provisions	24	**26,325**	25,648
TOTAL NON-CURRENT LIABILITIES		**66,858**	41,321
Trade and other payables	25	**18,898**	21,278
Borrowings	22	**–**	2,184
Taxation		**1,355**	1,759
TOTAL CURRENT LIABILITIES		**20,253**	25,221
TOTAL LIABILITIES		**87,111**	66,542
TOTAL EQUITY AND LIABILITIES		**351,497**	301,720

The notes set out on pages 176 to 286 are an integral part of these financial statements.

STATEMENT OF **PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

for the year ended 31 December 2015

In RM Mil	Note	2015	2014
Revenue		**98,197**	136,015
Cost of revenue		**(57,570)**	(71,432)
Gross profit	26	**40,627**	64,583
Selling and distribution expenses		**(541)**	(385)
Administration expenses		**(4,184)**	(4,664)
Other expenses		**(1,014)**	(93)
Other income		**28,582**	10,155
Operating profit	27	**63,470**	69,596
Financing costs		**(2,409)**	(1,789)
Profit before taxation		**61,061**	67,807
Tax expense	28	**(5,706)**	(13,774)
Profit for the year		**55,355**	54,033
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets			
– Changes in fair value		**(2)**	53
– Transfer to profit or loss upon disposal		**(145)**	–
Total other comprehensive (expense)/income for the year		**(147)**	53
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**55,208**	54,086

The notes set out on pages 176 to 286 are an integral part of these financial statements.

STATEMENT OF **CHANGES IN EQUITY**

for the year ended 31 December 2015

In RM Mil	Note	Non-distributable Share Capital	Non-distributable Available-for-sale Reserve	Distributable General Reserve	Distributable Retained Profits	Total Equity
Balance at 1 January 2014		100	130	12,000	192,862	205,092
Changes in fair value of available-for-sale financial assets representing other comprehensive income for the year		–	53	–	–	53
Profit for the year		–	–	–	54,033	54,033
Total comprehensive income for the year		–	53	–	54,033	54,086
Dividends representing transaction with shareholders of the Company	29	–	–	–	(24,000)	(24,000)
Balance at 31 December 2014		100	183	12,000	222,895	235,178
Balance at 1 January 2015		**100**	**183**	**12,000**	**222,895**	**235,178**
Available-for-sale financial assets:						
– Changes in fair value		**–**	**(2)**	**–**	**–**	**(2)**
– Transfer to profit or loss upon disposal		**–**	**(145)**	**–**	**–**	**(145)**
Total other comprehensive expense for the year		**–**	**(147)**	**–**	**–**	**(147)**
Profit for the year		**–**	**–**	**–**	**55,355**	**55,355**
Total comprehensive (expense)/income for the year		**–**	**(147)**	**–**	**55,355**	**55,208**
Dividends representing transaction with shareholders of the Company	29	**–**	**–**	**–**	**(26,000)**	**(26,000)**
Balance at 31 December 2015		**100**	**36**	**12,000**	**252,250**	**264,386**

The notes set out on pages 176 to 286 are an integral part of these financial statements.

STATEMENT OF **CASH FLOWS**

for the year ended 31 December 2015

In RM Mil	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		**61,458**	112,861
Cash paid to suppliers and employees		**(45,651)**	(85,042)
		15,807	27,819
Interest income from fund and other investments		**3,446**	3,436
Interest expenses paid		**(1,607)**	(1,134)
Taxation paid		**(6,779)**	(15,942)
Net cash generated from operating activities		**10,867**	14,179
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash generated from investing activities	30	**8,601**	27,837
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	31	**(9,835)**	(33,746)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**9,633**	8,270
NET FOREIGN EXCHANGE DIFFERENCES		**2,334**	416
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**55,793**	47,107
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**67,760**	55,793
CASH AND CASH EQUIVALENTS			
Cash and bank balances and deposits	18	**67,760**	55,443
Short term marketable securities	12	**–**	350
		67,760	55,793

The notes set out on pages 176 to 286 are an integral part of these financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

At the beginning of the current financial year, the Group and the Company had adopted amendments to MFRS and IC Interpretation (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board ("MASB") as described fully in note 41.

MASB has also issued new and revised pronouncements which are not yet effective for the Group and the Company and therefore, have not been adopted for in these financial statements. These pronouncements including their impact on the financial statements in the period of initial application are set out in note 41. New and revised pronouncements that are not relevant to the operations of the Group and of the Company are set out in note 41.

The financial statements were approved and authorised for issue by the Board of Directors on 25 February 2016.

1.2 Basis of measurement

The financial statements of the Group and of the Company have been prepared on historical cost basis except that, as disclosed in the accounting policies below, certain items are measured at fair value.

1.3 Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group and the Company's financial statements are presented in Ringgit Malaysia, which is the Company's functional currency.

1.4 Use of estimates and judgments

The preparation of financial statements in conformity with MFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

1. BASIS OF PREPARATION (CONTINUED)

1.4 Use of estimates and judgments (continued)

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

i. Note 3 : Property, Plant and Equipment;
ii. Note 10 : Intangible Assets;
iii. Note 14 : Deferred Tax;
iv. Note 24 : Other Long Term Liabilities and Provisions; and
v. Note 39 : Financial Instruments.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Group entities, unless otherwise stated.

2.1 Basis of consolidation

Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commences until the date that control ceases.

All inter-company transactions are eliminated on consolidation and revenue and profits relate to external transactions only. Unrealised losses resulting from inter-company transactions are also eliminated unless cost cannot be recovered.

Business combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate of the fair value of the consideration transferred and the amount of any non-controlling interests in the acquiree. Non-controlling interests are stated either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

Business combinations (continued)

When a business combination is achieved in stages, the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the profit or loss. Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between the fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity.

The Group measures goodwill as the excess of the cost of an acquisition and the fair value of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Goodwill arising from business combinations prior to 1 October 2009 is stated at the previous carrying amount less subsequent impairments, pursuant to the adoption of MFRS framework by the Group in the financial year ended 31 December 2012.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Non-controlling interests

Non-controlling interests at the end of the reporting period, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and total comprehensive income for the year between the non-controlling interests and shareholders of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

Loss of control

Upon loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Associates

Associates are entities in which the Group has significant influence including representation on the Board of Directors, but not control or joint control, over the financial and operating policies of the investee company.

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of post-acquisition profits or losses and other comprehensive income of the equity-accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

The Group's share of post-acquisition reserves and retained profits less losses is added to the carrying value of the investment in the consolidated statement of financial position. These amounts are taken from the latest audited financial statements or management financial statements of the associates.

When the Group's share of post-acquisition losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with the resulting gain or loss being recognised in profit or loss. Any retained interest in the former associate at the date when significant influence is lost is re-measured at fair value and this amount is regarded as the initial carrying amount of a financial asset.

When the Group's interest in an associate decreases but does not result in loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets and liabilities.

Unrealised profits arising from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially, unless cost cannot be recovered.

2.3 Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

Joint arrangements are classified as either joint operation or joint venture. A joint arrangement is classified as joint operation when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation. A joint arrangement is classified as joint venture when the Group has rights only to the net assets of the arrangement. The Group accounts for its interest in the joint venture using the equity method as described in note 2.2.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Property, plant and equipment and depreciation

Freehold land and projects-in-progress are stated at cost less accumulated impairment losses and are not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of material and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property at cost.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in the profit or loss accordingly. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

Depreciation for property, plant and equipment other than freehold land, oil and gas properties and projects-in-progress, is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Property, plant and equipment are not depreciated until the assets are ready for their intended use.

Amortisation of producing oil and gas properties is computed based on the unit of production method using total proved and probable reserves for capitalised acquisition costs and total proved and probable developed reserves for capitalised exploration and development costs.

Lease properties are depreciated over the lease term or the estimated useful lives, whichever is shorter. Leasehold land is depreciated over the lease term.

The estimated useful lives of the other property, plant and equipment are as follows:

Buildings	14 – 50 years
Plant and equipment	3 – 67 years
Office equipment, furniture and fittings	5 – 10 years
Computer software and hardware	5 years
Motor vehicles	3 – 5 years
Vessels	25 – 40 years

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Property, plant and equipment and depreciation (continued)

Estimates in respect of certain items of property, plant and equipment were revised during the year (refer note 3).

The depreciable amount is determined after deducting residual value. The residual value, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, period and method of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the profit or loss.

2.5 Investment properties

Investment properties are properties which are owned either to earn rental income or for capital appreciation or for both. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Freehold land and projects-in-progress are stated at cost and are not depreciated. Other investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any, consistent with the accounting policy for property, plant and equipment as stated in note 2.4.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalised borrowing costs.

Depreciation is recognised in the profit or loss on a straight-line basis over their estimated useful lives ranging between 10 and 50 years for buildings.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

2.6 Land held for development

Land held for development consists of land or such portions thereof on which no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle. Such land is classified as non-current asset and is stated at the lower of cost and net realisable value consistent with the accounting policy for inventories as stated in note 2.16.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Land held for development (continued)

Cost includes acquisition cost of land and attributable development expenditure. Cost associated with the acquisition of land includes the purchase price of the land, professional fees, stamp duties, commissions, conversion fees and other relevant levies. Development expenditure includes the cost for development of main infrastructure works.

Land held for development is reclassified as properties under development at the point when development activities have commenced and where it can be demonstrated that the development activities can be completed within the normal operating cycle. Properties under development is, in turn, reclassified as developed properties held for sale upon completion of the development activities.

Properties under development and developed properties held for sale are recognised as trade and other inventories in current assets. The accounting policy is described separately in note 2.16.

2.7 Leased assets

A lease arrangement is accounted for as finance or operating lease in accordance with the accounting policy as stated below. When the fulfilment of an arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, it is accounted for as a lease in accordance with the accounting policy below although the arrangement does not take the legal form of a lease.

Finance lease

A lease is recognised as a finance lease if it transfers substantially to the Group and the Company all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in the statement of financial position as non-current liabilities.

Minimum lease payments made under finance leases are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss and allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

Contingent lease payments, if any, are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

Operating lease

All leases that do not transfer substantially to the Group and the Company all the risks and rewards incidental to ownership are classified as operating leases and, the leased assets are not recognised on the Group's and the Company's statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Leased assets (continued)

Operating lease (continued)

Payments made under operating leases are recognised as an expense in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as a reduction of rental expense over the lease term on a straight-line basis. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

Prepaid lease payments

Prepaid rental and leasehold land which in substance is an operating lease are classified as prepaid lease payments. The payments made on entering into a lease arrangement or acquiring a leasehold land are accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

Leasehold land is classified into long lease and short lease. Long lease is defined as a lease with an unexpired lease period of 50 years or more. Short lease is defined as a lease with an unexpired lease period of less than 50 years.

2.8 Investments

Long term investments in subsidiaries, associates and joint ventures are stated at cost less impairment loss, if any, in the Company's financial statements unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

The carrying amount of these investments includes fair value adjustments on shareholder's loans and advances, if any (note 2.12(i)).

2.9 Intangible assets

Goodwill

Goodwill arising from business combinations is initially measured at cost as described in note 2.1. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is reviewed for impairment when there is objective evidence of impairment.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets (continued)

Exploration expenditure

Intangible assets also include expenditure on the exploration for and evaluation of oil and natural gas resources (hereinafter collectively referred to as "exploration expenditure"). The accounting policy for exploration expenditure is described separately in note 2.10.

Other intangible assets

Intangible assets other than goodwill and exploration expenditure are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination are their fair values as at the date of acquisition.

Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is recognised in the profit or loss on a straight-line basis over the estimated economic useful lives, other than certain recoverable expenditure incurred under a service contract which is amortised based on unit of production method. The amortisation method and the useful life for intangible assets are reviewed at least at each reporting date. Intangible assets are assessed for impairment whenever there is an indication that the intangible assets may be impaired.

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. These intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.10 Exploration and development expenditure

The Group follows the successful efforts method of accounting for the exploration and development expenditure.

Exploration expenditure

Costs directly associated with an exploration well, including license acquisition and drilling costs, are initially capitalised as intangible assets until the results have been evaluated.

If a well does not result in successful discovery of economically recoverable volume of hydrocarbons, such costs are written off as a dry well. If hydrocarbons are found and, subject to further appraisal activity which may include the drilling of further wells, are likely to be capable of commercial development under prevailing economic conditions, the costs continue to be carried as intangible assets. All such carried costs are reviewed at least once a year to determine whether the reserves found or appraised remain economically viable. When this is no longer the case, the costs are written off.

Where development plan is commercially viable and approved by the relevant authorities, the related exploration and evaluation costs are transferred to projects-in-progress in property, plant and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Exploration and development expenditure (continued)

Development expenditure

Development expenditure comprises all costs incurred in bringing a field to commercial production and is capitalised as incurred. The amount capitalised includes attributable interests and other financing costs incurred on exploration and development before commencement of production.

Upon commencement of production, the exploration and development expenditure initially capitalised as projects-in-progress are transferred to oil and gas properties, and are depreciated as described in the accounting policy for property, plant and equipment (note 2.4).

2.11 Non-current assets held for sale

Non-current assets and disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Immediately before classification as held for sale, the assets (or all the assets and liabilities in a disposal group) are remeasured in accordance with the Group's applicable accounting policies. Thereafter, on initial classification as held for sale, the assets or disposal groups are measured at the lower of carrying amount and fair value less cost to sell. Any differences are charged to the profit or loss.

Intangible assets, property, plant and equipment and investment properties once classified as held for sale are not amortised nor depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

2.12 Financial instruments

A financial instrument is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

(i) Financial assets

Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group and the Company determine the classification of financial assets at initial recognition.

Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, any directly attributable transaction costs.

Purchases or sales under a contract whose terms require delivery of financial assets within a timeframe established by regulation or convention in the marketplace concerned ("regular way purchases") are recognised on the trade date i.e. the date that the Group and the Company commit to purchase or sell the financial asset.

Fair value adjustments on shareholder's loans and advances at initial recognition, if any, are added to the carrying value of investments in the Company's financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

(i) Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial assets that are specifically designated into this category upon initial recognition.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss. The methods used to measure fair value are stated in note 2.25.

Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables are measured at amortised cost using the effective interest method (note 2.12(vi)).

Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Company has positive intention and ability to hold the assets to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method (note 2.12(vi)).

Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised directly in other comprehensive income and accumulated under available-for-sale reserve in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is reclassified to the profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see note 2.13(i)).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

(ii) Financial liabilities

Initial recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss or loans and borrowings (i.e. financial liabilities measured at amortised cost), as appropriate. The Group and the Company determine the classification of financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, any directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss.

Loans and borrowings

Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest method (note 2.12(vi)).

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Financial guarantee contracts are amortised on a straight-line basis over the contractual period of the debt instrument. Where the guarantee does not have a specific period, the guarantee will only be recognised in the profit or loss upon discharge of the guarantee.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

(iii) Financial guarantee contracts (continued)

When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Derivative financial instruments

The Group and the Company use derivative financial instruments such as interest rate and foreign currency swaps, forward rate contracts, futures and options, to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are recognised in the profit or loss.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

In general, contracts to sell or purchase non-financial items to meet expected own use requirements are not accounted for as financial instruments. However, contracts to sell or purchase commodities that can be net settled or which contain written options are required to be recognised at fair value, with gains and losses recognised in the profit or loss.

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

(vi) Amortised cost of financial instruments

Amortised cost is computed using the effective interest method. This method uses effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

(vii) Derecognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

2.13 Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries, investments in associates and investments in joint ventures) are assessed at each reporting date to determine whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment (continued)

(i) Financial assets (continued)

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets, other than inventories, amount due from contract customers, deferred tax assets and non-current assets or disposal groups classified as held for sale, are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

A cash-generating unit is the smallest identifiable asset group that generates cash flows from continuing use that are largely independent from other assets and groups. An impairment loss recognised in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less cost to sell and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed in a subsequent period. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances, deposits with licensed financial institutions and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and deposits restricted, if any.

2.15 Construction work-in-progress

Construction work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction work-in-progress is presented as part of trade and other receivables as amount due from contract customers in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as amount due to contract customers which is part of trade and other payables in the statement of financial position.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost of crude oil and condensates includes costs of bringing the inventories to their present location and condition and is determined on a weighted average basis.

Cost of petroleum products includes crude oil costs, export duty, transportation charges and processing costs and is determined on a weighted average basis.

Cost of liquefied natural gas ("LNG") and petrochemical products includes raw gas costs and production overheads and is determined on a weighted average basis.

Cost of material stores and spares consists of the invoiced value from suppliers and import duty charges and is determined on a weighted average basis.

Cost of developed properties held for sale and properties under development consists of costs associated with the acquisition of land, all costs that are directly attributable to development activities, appropriate proportions of common costs attributable to developing the properties, and interest expenses incurred during the period of active development.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Provisions

A provision is recognised if, as a result of a past event, the Group and the Company have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future net cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the accretion in the provision due to the passage of time is recognised as finance cost.

The amount recognised as a provision is the best estimate of the net expenditure required to settle the present obligation at the reporting date. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

In particular, information about provisions that have the most significant effect on the amount recognised in the financial statements is described in note 24.

2.18 Employee benefits

Short term benefits

Wages and salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Company.

Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF").

Some of the Group's foreign subsidiaries make contributions to their respective countries' statutory pension schemes and certain other independently-administered funds which are defined contribution plans.

Such contributions are recognised as an expense in the profit or loss as incurred.

2.19 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using the statutory tax rates at the reporting date, and any adjustment to tax payable in respect of previous years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Taxation (continued)

Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and other unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and other unused tax credits can be utilised.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill and the initial recognition of an asset or liability in a transaction which is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities where they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that future taxable profit will be available against which the related tax benefit can be realised.

2.20 Foreign currency transactions

In preparing the financial statements of individual entities in the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currencies at rates of exchange ruling on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the reporting date have been retranslated to the functional currency at rates ruling on the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies, which are measured at fair value, are retranslated to the functional currency at the foreign exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

Gains and losses on exchange arising from retranslation are recognised in the profit or loss, except for differences arising on retranslation of available-for-sale equity instruments, which are recognised in equity.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Foreign currency transactions (continued)

On consolidation, the assets and liabilities of subsidiaries with functional currencies other than Ringgit Malaysia, are translated into Ringgit Malaysia at the exchange rates approximating those ruling at the reporting date, except for goodwill and fair value adjustments arising from business combinations before 1 April 2011 which are treated as assets and liabilities of the acquirer company pursuant to the adoption of MFRS framework.

The income and expenses are translated at the average exchange rates for the year, which approximates the exchange rates at the date of the transactions. All resulting exchange differences are taken to the foreign currency translation reserve within equity.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to the Group's foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in a foreign operation and are reclassified to other comprehensive income and accumulated under foreign currency translation reserve in equity. Upon disposal of the investment, the cumulative exchange differences previously recorded in equity are reclassified to the consolidated profit or loss.

2.21 Borrowing costs and foreign currency exchange differences relating to projects-in-progress

Borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to be prepared for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are completed.

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the weighted average of the borrowing costs applicable to borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of financing a specific qualifying asset, in which case the actual borrowing cost incurred on that borrowing less any investment income on the temporary investment of that borrowings, will be capitalised.

Exchange differences arising from foreign currency borrowings, although regarded as an adjustment to borrowing costs, are not capitalised but instead recognised in the profit or loss in the period in which they arise.

2.22 Revenue

Revenue from sale of oil and gas and their related products are recognised in the profit or loss when the risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the profit or loss based on actual and estimates of work done in respect of services rendered for long term project management contracts. Work done is measured based on internal certification of project activities. Full provision is made for any foreseeable losses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue (continued)

Revenue arising from shipping activities are mainly from freight income and charter income. Freight income and the relevant discharged costs of cargoes loaded onto vessels up to the reporting date are accrued for in the profit or loss based on percentage of completion method. Charter income is accrued on time accrual basis.

Revenue from sale of properties is recognised in the profit or loss when the significant risks and rewards of ownership of the properties have been transferred to the buyer.

Revenue arising from rental income of investment properties is recognised on a straight-line basis over the term of the lease under the lease arrangement per note 33.

Revenue arising from assets yielding interest is recognised on a time proportion basis that takes into account the effective yield on the assets.

Revenue arising from investments yielding dividend is recognised when the shareholders' right to receive payment is established.

2.23 Financing costs

Financing costs comprise interest payable on borrowings and profit sharing margin on Islamic Financing Facilities, as well as accretion in provision due to the passage of time.

All interest and other costs incurred in connection with borrowings are expensed as incurred, other than that capitalised in accordance with the accounting policy stated in note 2.21. The interest component of finance lease payments is accounted for in accordance with the policy set out in note 2.7.

2.24 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the PETRONAS Executive Committee, to make decision about resources to be allocated to the segment and to assess its performance.

2.25 Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Fair value measurements (continued)

(i) Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

(ii) Non-financial assets

For non-financial assets, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group and the Company use observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- Level 2 – Inputs 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).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable input).

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

3. PROPERTY, PLANT AND EQUIPMENT

Group 2015 *In RM Mil*	At 1.1.2015	Additions	Disposals/ write-offs
At cost:			
Freehold land	2,668	28	(8)
Leasehold land	2,574	5	(1)
Lease properties	1,045	–	(14)
Oil and gas properties	235,831	9,283	(1,510)
Buildings	17,464	323	(57)
Plant and equipment	91,134	2,168	(1,315)
Office equipment, furniture and fittings	2,577	149	(24)
Computer software and hardware	3,318	152	(168)
Motor vehicles	568	73	(20)
Vessels	32,082	768	(1,314)
Projects-in-progress			
– oil and gas properties	55,364	20,202	(12)
– other projects	45,599	26,515	(409)
	490,224	59,666	(4,852)

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Group 2015 *In RM Mil*	At 1.1.2015	Charge for the year	Disposals/ write-offs
Accumulated depreciation and impairment losses:			
Freehold land	–	–	–
Leasehold land	596	33	–
Lease properties	880	11	(13)
Oil and gas properties	141,999	13,046	(846)
Buildings	6,065	439	(33)
Plant and equipment	56,156	4,753	(1,166)
Office equipment, furniture and fittings	1,942	184	(22)
Computer software and hardware	2,342	324	(135)
Motor vehicles	385	53	(18)
Vessels	17,607	1,360	(1,299)
Projects-in-progress			
– oil and gas properties	933	–	–
– other projects	33	–	(1)
	228,938	20,203	(3,533)

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NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2015 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2015 *In RM Mil*	Transfers/ reclass/ adjustments	Translation exchange difference	At 31.12.2015
At cost:			
Freehold land	**(9)**	**18**	**2,697**
Leasehold land	**(12)**	**33**	**2,599**
Lease properties	**(617)**	**24**	**438**
Oil and gas properties	**27,857**	**22,523**	**293,984**
Buildings	**199**	**128**	**18,057**
Plant and equipment	**20,288**	**5,378**	**117,653**
Office equipment, furniture and fittings	**248**	**44**	**2,994**
Computer software and hardware	**57**	**63**	**3,422**
Motor vehicles	**(2)**	**2**	**621**
Vessels	**2,655**	**5,847**	**40,038**
Projects-in-progress			
– oil and gas properties	**(34,502)**	**4,206**	**45,258**
– other projects	**(11,995)**	**4,798**	**64,508**
	[a,b] **4,167**	**43,064**	**592,269**

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Group 2015 *In RM Mil*	Impairment loss	Transfers/ reclass/ adjustments	Translation exchange difference	At 31.12.2015
Accumulated depreciation and impairment losses:				
Freehold land	**–**	**–**	**–**	**–**
Leasehold land	**–**	**(17)**	**19**	**631**
Lease properties	**–**	**(540)**	**21**	**359**
Oil and gas properties	**10,778**	**1,028**	**17,874**	**183,879**
Buildings	**23**	**(93)**	**90**	**6,491**
Plant and equipment	**57**	**491**	**4,169**	**64,460**
Office equipment, furniture and fittings	**–**	**(3)**	**29**	**2,130**
Computer software and hardware	**–**	**(19)**	**53**	**2,565**
Motor vehicles	**–**	**(12)**	**(2)**	**406**
Vessels	**416**	**–**	**280**	**18,364**
Projects-in-progress				
– oil and gas properties	**1,896**	**(461)**	**321**	**2,689**
– other projects	**1**	**(6)**	**–**	**27**
	13,171	[c] **368**	**22,854**	**282,001**

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a Includes revision to future cost of decommissioning of oil and gas properties amounting to (RM957 million).

b Includes net transfers of RM5,124 million comprising transfers from intangible assets of RM2,794 million, assets held for sale of RM2,146 million, other receivables of RM167 million, prepaid lease payments of RM12 million and investment properties of RM5 million.

c Includes net transfers of RM368 million comprising transfers from assets held for sale of RM360 million, intangible assets of RM6 million and prepaid lease payments of RM2 million.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2014 *In RM Mil*	At 1.1.2014	Additions	Acquisition/ (disposals) of subsidiaries and an interest in a joint operation	Disposals/ write-offs
At cost:				
Freehold land	2,642	2	–	(4)
Leasehold land	2,529	25	39	(7)
Lease properties	1,044	–	–	(3)
Oil and gas properties	193,623	4,654	2,043	(4,220)
Buildings	17,168	176	7	(36)
Plant and equipment	83,321	2,189	3,707	(2,495)
Office equipment, furniture and fittings	2,549	87	7	(41)
Computer software and hardware	2,815	248	34	(71)
Motor vehicles	543	48	2	(32)
Vessels	31,210	492	–	(1,099)
Projects-in-progress				
– oil and gas properties	59,674	26,088	–	(184)
– other projects	29,988	20,970	(442)	(99)
	427,106	54,979	5,397	(8,291)

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Group 2014 *In RM Mil*	At 1.1.2014	Charge for the year	Acquisition/ (disposals) of subsidiaries and an interest in a joint operation	Disposals/ write-offs
Accumulated depreciation and impairment losses:				
Freehold land	–	–	–	–
Leasehold land	576	50	7	–
Lease properties	851	28	–	(3)
Oil and gas properties	103,666	14,193	–	(36)
Buildings	5,671	468	1	(23)
Plant and equipment	51,075	3,912	1,894	(1,668)
Office equipment, furniture and fittings	1,852	162	5	(36)
Computer software and hardware	2,096	289	32	(71)
Motor vehicles	373	42	2	(31)
Vessels	15,656	1,124	–	(548)
Projects-in-progress				
– oil and gas properties	1,714	–	–	–
– other projects	39	–	–	–
	183,569	20,268	1,941	(2,416)

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NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2015 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2014 *In RM Mil*	Transfers/ reclass/ adjustments	Translation exchange difference	At 31.12.2014
At cost:			
Freehold land	38	(10)	2,668
Leasehold land	(22)	10	2,574
Lease properties	(1)	5	1,045
Oil and gas properties	35,185	4,546	235,831
Buildings	208	(59)	17,464
Plant and equipment	3,231	1,181	91,134
Office equipment, furniture and fittings	(43)	18	2,577
Computer software and hardware	289	3	3,318
Motor vehicles	8	(1)	568
Vessels	(552)	2,031	32,082
Projects-in-progress			
– oil and gas properties	(31,375)	1,161	55,364
– other projects	(5,842)	1,024	45,599
	[a,b] 1,124	9,909	490,224

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Group 2014 *In RM Mil*	Impairment loss/ (write-back)	Transfers/ reclass/ adjustments	Translation exchange difference	At 31.12.2014
Accumulated depreciation and impairment losses:				
Freehold land	–	–	–	–
Leasehold land	–	(44)	7	596
Lease properties	–	(1)	5	880
Oil and gas properties	20,163	700	3,313	141,999
Buildings	(4)	(30)	(18)	6,065
Plant and equipment	71	(79)	951	56,156
Office equipment, furniture and fittings	–	(44)	3	1,942
Computer software and hardware	–	(5)	1	2,342
Motor vehicles	–	–	(1)	385
Vessels	235	132	1,008	17,607
Projects-in-progress				
– oil and gas properties	225	(1,029)	23	933
– other projects	9	(16)	1	33
	20,699	[c] (416)	5,293	228,938

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a Includes revision to future cost of decommissioning of oil and gas properties amounting to (RM286 million).

b Includes net transfers of RM1,410 million comprising transfer from intangible assets of RM5,545 million and transfers to assets held for sale of (RM2,335 million), long term receivables of (RM1,747 million), other receivables of (RM47 million) and prepaid lease payments of (RM6 million).

c Includes net transfers of (RM416 million) comprising transfers to assets held for sale of (RM406 million) and intangible assets of (RM11 million) and transfer from investment properties of RM1 million.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company 2015 *In RM Mil*	At 1.1.2015	Additions	Disposals/ write-offs
At cost:			
Freehold land	**6**	**–**	**(6)**
Leasehold land	**98**	**–**	**(22)**
Lease properties	**144**	**–**	**(23)**
Oil and gas properties	**15,767**	**3,669**	**–**
Buildings	**289**	**–**	**(17)**
Plant and equipment	**985**	**809**	**–**
Office equipment, furniture and fittings	**98**	**1**	**(1)**
Computer software and hardware	**368**	**4**	**(76)**
Motor vehicles	**20**	**2**	**(1)**
Projects-in-progress			
– oil and gas properties	**483**	**699**	**–**
– other projects	**4,678**	**6,355**	**–**
	22,936	**11,539**	**(146)**

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Company 2015 *In RM Mil*	At 1.1.2015	Charge for the year	Disposals/ write-offs
Accumulated depreciation and impairment losses:			
Freehold land	**–**	**–**	**–**
Leasehold land	**35**	**1**	**(16)**
Lease properties	**118**	**3**	**(23)**
Oil and gas properties	**9,620**	**1,260**	**–**
Buildings	**60**	**1**	**(6)**
Plant and equipment	**209**	**72**	**–**
Office equipment, furniture and fittings	**86**	**8**	**(1)**
Computer software and hardware	**219**	**41**	**(49)**
Motor vehicles	**18**	**1**	**(1)**
Projects-in-progress			
– oil and gas properties	**233**	**–**	**–**
– other projects	**–**	**–**	**–**
	10,598	**1,387**	**(96)**

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NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company 2015 In RM Mil	Transfers/ reclass/ adjustments	At 31.12.2015
At cost:		
Freehold land	–	–
Leasehold land	–	76
Lease properties	(47)	74
Oil and gas properties	(781)	18,655
Buildings	(35)	237
Plant and equipment	–	1,794
Office equipment, furniture and fittings	–	98
Computer software and hardware	4	300
Motor vehicles	–	21
Projects-in-progress		
– oil and gas properties	(848)	334
– other projects	(1,668)	9,365
	[a,b] (3,375)	30,954

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Company 2015 In RM Mil	Impairment loss	Transfers/ reclass/ adjustments	At 31.12.2015
Accumulated depreciation and impairment losses:			
Freehold land	–	–	–
Leasehold land	–	–	20
Lease properties	–	(32)	66
Oil and gas properties	355	–	11,235
Buildings	–	–	55
Plant and equipment	–	–	281
Office equipment, furniture and fittings	–	–	93
Computer software and hardware	–	–	211
Motor vehicles	–	–	18
Projects-in-progress			
– oil and gas properties	–	–	233
– other projects	–	–	–
	355	[c] (32)	12,212

continued from previous page

a Includes revision to future cost of decommissioning of oil and gas properties amounting to (RM1,629 million).
b Includes net transfers to amount due from subsidiaries of (RM1,664 million) and assets held for sale of (RM82 million).
c Include net transfer to assets held for sale of (RM32 million).

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company 2014 In RM Mil	At 1.1.2014	Additions	Disposals/ write-offs
At cost:			
Freehold land	6	–	–
Leasehold land	125	–	(11)
Lease properties	368	–	–
Oil and gas properties	14,498	878	–
Buildings	277	–	–
Plant and equipment	11	972	–
Office equipment, furniture and fittings	98	1	(1)
Computer software and hardware	240	6	(23)
Motor vehicles	24	1	(5)
Projects-in-progress			
– oil and gas properties	522	1,101	(145)
– other projects	3,843	1,623	(187)
	20,012	4,582	(372)

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Company 2014 In RM Mil	At 1.1.2014	Charge for the year	Disposals/ write-offs
Accumulated depreciation and impairment losses:			
Freehold land	–	–	–
Leasehold land	39	1	(2)
Lease properties	335	3	–
Oil and gas properties	6,558	2,139	–
Buildings	58	2	–
Plant and equipment	11	198	–
Office equipment, furniture and fittings	78	9	(1)
Computer software and hardware	173	61	(15)
Motor vehicles	20	2	(4)
Projects-in-progress			
– oil and gas properties	233	–	–
– other projects	–	–	–
	7,505	2,415	(22)

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NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company 2014 *In RM Mil*	**Transfers/ reclass/ adjustments**	**At 31.12.2014**
At cost:		
Freehold land	–	6
Leasehold land	(16)	98
Lease properties	(224)	144
Oil and gas properties	391	15,767
Buildings	12	289
Plant and equipment	2	985
Office equipment, furniture and fittings	–	98
Computer software and hardware	145	368
Motor vehicles	–	20
Projects-in-progress		
– oil and gas properties	(995)	483
– other projects	(601)	4,678
	[a,b] (1,286)	22,936

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Company 2014 *In RM Mil*	**Impairment loss**	**Transfers/ reclass/ adjustments**	**At 31.12.2014**
Accumulated depreciation and impairment losses:			
Freehold land	–	–	–
Leasehold land	–	(3)	35
Lease properties	–	(220)	118
Oil and gas properties	923	–	9,620
Buildings	–	–	60
Plant and equipment	–	–	209
Office equipment, furniture and fittings	–	–	86
Computer software and hardware	–	–	219
Motor vehicles	–	–	18
Projects-in-progress			
– oil and gas properties	–	–	233
– other projects	–	–	–
	923	[c] (223)	10,598

continued from previous page

a Includes revision to future cost of decommissioning of oil and gas properties amounting to (RM604 million).
b Includes net transfers to amount due from subsidiaries of (RM442 million) and assets held for sale of (RM240 million).
c Includes net transfer to assets held for sale of (RM223 million).

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In RM Mil	**Group Carrying amount 2015**	**2014**	**Company Carrying amount 2015**	**2014**
Freehold land	**2,697**	2,668	**–**	6
Leasehold land	**1,968**	1,978	**56**	63
Lease properties	**79**	165	**8**	26
Oil and gas properties	**110,105**	93,832	**7,420**	6,147
Buildings	**11,566**	11,399	**182**	229
Plant and equipment	**53,193**	34,978	**1,513**	776
Office equipment, furniture and fittings	**864**	635	**5**	12
Computer software and hardware	**857**	976	**89**	149
Motor vehicles	**215**	183	**3**	2
Vessels	**21,674**	14,475	**–**	–
Projects-in-progress				
– oil and gas properties	**42,569**	54,431	**101**	250
– other projects	**64,481**	45,566	**9,365**	4,678
	310,268	261,286	**18,742**	12,338

Security

Property, plant and equipment of certain subsidiaries costing RM3,738,836,000 (2014: RM7,229,797,000) have been pledged as security for loan facilities as set out in note 22 and note 23 to the financial statements.

Projects-in-progress

Included in additions to projects-in-progress of the Group is finance cost capitalised during the year of RM1,721,000 (2014: RM1,550,000). The interest rate on borrowings capitalised is 4.71% (2014: 3.85% to 4.10%) per annum.

Restriction of land title

The titles to certain freehold and leasehold land are in the process of being registered in the subsidiaries' name.

Change in estimates

During the year, the Company revised the estimated future cost of decommissioning of oil and gas properties. The revision was accounted for prospectively as a change in accounting estimates resulting in a decrease in cost of oil and gas properties by RM1,629,000,000 (refer note 24).

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Group's and the Company's investment decision-making process. Estimation of oil and gas reserves are conducted using industry recognised method.

The term "reserves" describes the recoverable quantity of oil and gas volumes that are commercially viable for development given the prevailing economic situation present at the time of estimation.

Reserves estimates are normally presented alongside the range of level of certainties namely P1 (proved reserves; high level of certainty), P2 (probable reserves; mean level of certainty) and P3 (possible reserves; low level of certainty). The level of certainties depends on the availability and understanding of the geological and reservoir data available at the time of estimation and is normally represented in the form of probability distribution.

The reserves are further subdivided into developed and undeveloped categories. Developed reserves are reserves expected to be recovered through existing wells and facilities under the operating conditions that have been designed for. Undeveloped reserves are reserves to be recovered from approved and sanctioned projects and remain so until the wells are drilled, completed and production commences which would by then be classified as developed.

Estimation of reserves are reviewed annually. These estimates are inherently imprecise, require the application of judgments and are subject to regular revision, either upward or downward, based on new information available such as new geological information gathered from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Such revisions will impact the Group's and the Company's reported financial position and results which include:

(i) carrying value of oil and gas properties and their corresponding amortisation charges;
(ii) carrying value of projects-in-progress;
(iii) provisions for decommissioning and restoration; and
(iv) carrying value of deferred tax assets/liabilities.

Impairment

As at 31 December 2015, the Group and the Company recognised net impairment losses on certain property, plant and equipment amounting to RM13,171,000,000 (2014: RM20,699,000,000) and RM355,000,000 (2014: RM923,000,000) respectively. In arriving at the impairment loss amounts, the carrying amount of each impaired cash-generating unit is compared with the recoverable amount of the cash-generating unit.

The Group's and the Company's recoverable amount for impaired cash-generating unit of RM109,657,000,000 (2014: RM185,524,000,000) and RM392,000,000 (2014: RM218,100,000) respectively were determined from the value in use calculations, using cash flow projections.

The Group and the Company uses a range of long term assumptions including prices, volumes, margins and costs based on past performance and management's expectations of market development. The projected cash flows were discounted using discount rates ranging between 6.5% and 9.0% (2014: 5.7% and 9.0%).

4. INVESTMENT PROPERTIES

Group 2015 *In RM Mil*	**At 1.1.2015**	**Additions**	**Disposals/ write-offs**
At cost:			
Freehold land	**1,378**	**–**	**–**
Buildings	**13,341**	**16**	**–**
Projects-in-progress	**166**	**174**	**(18)**
	14,885	**190**	**(18)**

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Group 2015 *In RM Mil*	**At 1.1.2015**	**Charge for the year**	**Disposals/ write-offs**
Accumulated depreciation:			
Freehold land	**–**	**–**	**–**
Buildings	**4,346**	**485**	**–**
Projects-in-progress	**–**	**–**	**–**
	4,346	**485**	**–**

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Group 2014 *In RM Mil*	**At 1.1.2014**	**Additions**	**Disposal of a subsidiary**	**Adjustments/ disposals**
At cost:				
Freehold land	1,232	2	(67)	–
Buildings	12,850	12	–	(15)
Projects-in-progress	453	304	–	(1)
	14,535	318	(67)	(16)

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Group 2014 *In RM Mil*	**At 1.1.2014**	**Charge for the year**	**Disposal of a subsidiary**	**Adjustments/ disposals**
Accumulated depreciation:				
Freehold land	–	–	–	–
Buildings	3,861	474	–	–
Projects-in-progress	–	–	–	–
	3,861	474	–	–

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NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

4. INVESTMENT PROPERTIES (CONTINUED)

Group 2015 *In RM Mil*	Transfers/ reclass	Translation exchange difference	At 31.12.2015
At cost:			
Freehold land	**(2)**	**1**	**1,377**
Buildings	**(3)**	**74**	**13,428**
Projects-in-progress	**(73)**	**–**	**249**
	[a] (78)	**75**	**15,054**

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Group 2015 *In RM Mil*	Transfers/ reclass	Translation exchange difference	At 31.12.2015
Accumulated depreciation:			
Freehold land	**–**	**–**	**–**
Buildings	**(2)**	**48**	**4,877**
Projects-in-progress	**–**	**–**	**–**
	[b] (2)	**48**	**4,877**

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Group 2014 *In RM Mil*	Transfers/ reclass	Translation exchange difference	At 31.12.2014
At cost:			
Freehold land	211	–	1,378
Buildings	475	19	13,341
Projects-in-progress	(590)	–	166
	[c] 96	19	14,885

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Group 2014 *In RM Mil*	Transfers/ reclass	Translation exchange difference	At 31.12.2014
Accumulated depreciation:			
Freehold land	–	–	–
Buildings	(1)	12	4,346
Projects-in-progress	–	–	–
	[d] (1)	12	4,346

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a Comprises transfers to long term receivables of (RM66 million), assets held for sale of (RM7 million) and property, plant and equipment of (RM5 million).

b Comprises transfer to assets held for sale of (RM2 million).

c Comprises transfer from land held for development of RM114 million and transfer to assets held for sale of (RM18 million).

d Comprises transfer to property, plant and equipment of (RM1 million).

4. INVESTMENT PROPERTIES (CONTINUED)

Group *In RM Mil*	Carrying amount 2015	 2014
Freehold land	**1,377**	1,378
Buildings	**8,551**	8,995
Projects-in-progress	**249**	166
	10,177	10,539

Fair value information

The Directors have estimated the fair values of investment properties as at 31 December 2015 to be RM19,300,000,000 (2014: RM20,562,000,000).

The fair values of investment properties are categorised as follows:

Group *In RM Mil*	Level 3 2015	 2014
Freehold land	**1,674**	3,290
Buildings	**17,626**	17,272
	19,300	20,562

The Group uses various valuation techniques in determining the fair values of its investment properties. Such techniques include discounted cash flows method, investment method and market comparable method.

5. LAND HELD FOR DEVELOPMENT

Included in land held for development is freehold land amounting to RM2,543,000,000 (2014: RM1,684,000,000).

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

6. PREPAID LEASE PAYMENTS

Group 2015 In RM Mil	At 1.1.2015	Additions	Disposals/ write-offs	Transfers	Translation exchange difference	At 31.12.2015
At cost:						
Leasehold land						
– long lease	**162**	**1**	**–**	**–**	**5**	**168**
– short lease	**53**	**–**	**–**	**–**	**–**	**53**
Prepaid rental	**1,200**	**18**	**(4)**	**(12)**	**32**	**1,234**
	1,415	**19**	**(4)**	**[a] (12)**	**37**	**1,455**

Group 2015 In RM Mil	At 1.1.2015	Charge for the year	Disposals/ write-offs	Transfers	Translation exchange difference	At 31.12.2015
Accumulated amortisation:						
Leasehold land						
– long lease	**15**	**1**	**–**	**–**	**–**	**16**
– short lease	**31**	**1**	**–**	**–**	**–**	**32**
Prepaid rental	**332**	**42**	**(3)**	**(2)**	**11**	**380**
	378	**44**	**(3)**	**[b] (2)**	**11**	**428**

Group 2014 In RM Mil	At 1.1.2014	Additions	Disposals	Transfers	Translation exchange difference	At 31.12.2014
At cost:						
Leasehold land						
– long lease	162	–	–	–	–	162
– short lease	53	1	(1)	–	–	53
Prepaid rental	1,141	52	(3)	9	1	1,200
	1,356	53	(4)	[c] 9	1	1,415

Group 2014 In RM Mil	At 1.1.2014	Charge for the year	Disposals	Transfers	Translation exchange difference	At 31.12.2014
Accumulated amortisation:						
Leasehold land						
– long lease	12	3	–	–	–	15
– short lease	30	2	(1)	–	–	31
Prepaid rental	297	38	(3)	–	–	332
	339	43	(4)	–	–	378

a Comprises transfer to property, plant & equipment of (RM12 million).

b Comprises transfer to property, plant & equipment of (RM2 million).

c Comprises transfers from property, plant & equipment of RM6 million and other receivables of RM3 million.

6. PREPAID LEASE PAYMENTS (CONTINUED)

Group In RM Mil	Carrying amount 2015	2014
Leasehold land		
– long lease	**152**	147
– short lease	**21**	22
Prepaid rental	**854**	868
	1,027	1,037

Restrictions of land title

The title to certain leasehold land is in the process of being registered in the subsidiary's name. Certain long term leasehold land of the Group cannot be disposed of, charged or sub-leased without the prior consent of the relevant authority.

7. INVESTMENTS IN SUBSIDIARIES

Company In RM Mil	2015	2014
Investments at cost in Malaysia		
– quoted shares	**17,064**	17,064
– unquoted shares	**46,757**	39,086
Fair value adjustments on loans and advances and financial guarantee	**8,789**	9,261
	72,610	65,411
Less: Impairment losses		
– unquoted shares	**(2,133)**	(2,043)
	70,477	63,368
Market value of quoted shares	**110,877**	89,337

Details of key subsidiaries are stated in note 42 to the financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

8. INVESTMENTS IN ASSOCIATES

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
Investments at cost				
– quoted shares in Malaysia	**263**	263	**302**	302
– unquoted shares	**6,348**	3,282	**–**	–
Share of post-acquisition profits and reserves	**2,269**	1,815	**–**	–
	8,880	5,360	**302**	302
Less: Impairment losses				
– unquoted shares	**(3,439)**	(2,153)	**–**	–
	5,441	3,207	**302**	302
Market value of quoted shares	**1,398**	1,533	**942**	921
Contingent liabilities:				
Guarantees extended to third parties	**(1,142)**	(1,851)	**–**	–

Details of key associates are stated in note 43 to the financial statements.

9. INVESTMENTS IN JOINT VENTURES

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
Investments at cost				
– unquoted shares	**4,418**	6,587	**752**	752
Fair value adjustments on loans and advances and financial guarantee	**717**	619	**717**	717
Share of post-acquisition profits and reserves	**2,698**	2,300	**–**	–
	7,833	9,506	**1,469**	1,469
Less: Impairment losses	**(256)**	(247)	**(9)**	(9)
	7,577	9,259	**1,460**	1,460
Contingent liabilities:				
Guarantees extended to third parties	**(2)**	(2)	**(2)**	(2)
Claims filed by/disputes with various parties	**(8)**	(1)	**(8)**	(1)

Details of key joint ventures are stated in note 44 to the financial statements.

10. INTANGIBLE ASSETS

Group 2015 In RM Mil	At 1.1.2015	Additions	Disposals/ write-offs
At cost:			
Goodwill	**5,664**	**–**	**–**
Exploration expenditure	**26,171**	**8,499**	**(1,412)**
Other intangible assets	**15,834**	**3,838**	**(9)**
	47,669	**12,337**	**(1,421)**

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Group 2015 In RM Mil	At 1.1.2015	Charge for the year	Disposals/ write-offs
Accumulated amortisation and impairment losses:			
Goodwill	**342**	**–**	**–**
Exploration expenditure	**5,073**	**–**	**(388)**
Other intangible assets	**12,127**	**3,526**	**(6)**
	17,542	**3,526**	**(394)**

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Group 2014 In RM Mil	At 1.1.2014	Additions	Acquisition of a subsidiary and an interest in a joint operation	Disposals/ write-offs
At cost:				
Goodwill	5,612	–	12	–
Exploration expenditure	27,444	7,632	3,653	(6,602)
Other intangible assets	11,628	3,413	–	(76)
	44,684	11,045	3,665	(6,678)

continue to next page

Group 2014 In RM Mil	At 1.1.2014	Charge for the year	Acquisition of a subsidiary and an interest in a joint operation	Disposals/ write-offs
Accumulated amortisation and impairment losses:				
Goodwill	207	–	–	–
Exploration expenditure	5,177	–	–	(1,582)
Other intangible assets	4,936	6,470	–	–
	10,320	6,470	–	(1,582)

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NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

10. INTANGIBLE ASSETS (CONTINUED)

Group 2015 In RM Mil	Transfers	Translation exchange difference	At 31.12.2015
At cost:			
Goodwill	**–**	**213**	**5,877**
Exploration expenditure	**(2,563)**	**1,676**	**32,371**
Other intangible assets	**224**	**3,719**	**23,606**
	[a] (2,339)	**5,608**	**61,854**

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Group 2015 In RM Mil	Impairment loss	Transfers	Translation exchange difference	At 31.12.2015
Accumulated amortisation and impairment losses:				
Goodwill	**206**	**–**	**4**	**552**
Exploration expenditure	**3,113**	**55**	**617**	**8,470**
Other intangible assets	**–**	**(11)**	**2,892**	**18,528**
	3,319	**[b] 44**	**3,513**	**27,550**

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Group 2014 In RM Mil	Transfers	Translation exchange difference	At 31.12.2014
At cost:			
Goodwill	–	40	5,664
Exploration expenditure	(5,903)	(53)	26,171
Other intangible assets	9	860	15,834
	[c] (5,894)	847	47,669

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Group 2014 In RM Mil	Impairment loss	Transfers	Translation exchange difference	At 31.12.2014
Accumulated amortisation and impairment losses:				
Goodwill	137	–	(2)	342
Exploration expenditure	1,687	(301)	92	5,073
Other intangible assets	–	–	721	12,127
	1,824	[d] (301)	811	17,542

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a Comprises transfer to property, plant and equipment of (RM2,794 million) and transfers from assets held for sale of RM400 million and other receivables of RM55 million.

b Comprises transfers to assets held for sale of (RM5 million) and property, plant and equipment of (RM6 million) and transfer from other receivables of RM55 million.

c Comprises transfers to property, plant and equipment of (RM5,545 million) and assets held for sale of (RM349 million).

d Comprises transfer to assets held for sale of (RM312 million) and transfer from property, plant and equipment of RM11 million.

10. INTANGIBLE ASSETS (CONTINUED)

Group In RM Mil	Carrying amount 2015	2014
Goodwill	**5,325**	5,322
Exploration expenditure	**23,901**	21,098
Other intangible assets	**5,078**	3,707
	34,304	30,127

Impairment review of goodwill

For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the cash-generating unit. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value of a cash-generating unit, the value in use is deemed to be the recoverable amount.

Included in goodwill is an amount of RM3,986,000,000 (2014: RM3,986,000,000) arising from the acquisition of PETRONAS Lubricants Italy S.p.A Group ("PLI Group"). The recoverable amount of PLI Group unit was based on its value in use and was determined with the assistance of independent valuers. The value in use was determined by using the discounted cash flow method based on management's business plan cash flow projections for 5 financial years from 2015 to 2019, adjusted with an estimated terminal value. The cash flow assumes a long term growth rate of 2.9% (2014: 3.0%) and is discounted to present value using discount rate of between 6.5% and 10.0% (2014: 7.5% and 10.1%).

Based on the above, the recoverable amount of the unit of RM5,059,000,000 (2014: RM4,168,000,000) was determined to be higher than its carrying amount of RM3,522,000,000 (2014: RM3,773,000,000) and therefore, no impairment loss was recognised.

The above estimates are sensitive in the following areas:

(i) A decrease of 0.5 percentage point in long term growth rate used would have reduced the recoverable amount by approximately RM279,000,000.

(ii) An increase of 1.0 percentage point in discount rate used would have reduced the recoverable amount by approximately RM647,000,000.

The value in use of other goodwill is derived from the respective cash-generating units' business plan cash flow projections for 5 financial years and extrapolated using long term average growth rate of the respective industries those units are engaged in. These cash flows are discounted to present value using discount rate of between 8.3% and 9.0% (2014: 7.8% and 9.0%).

Based on the above, the carrying amount of other goodwill of certain units were determined to be higher than their recoverable amount and the impairment loss of RM206,000,000 (2014: RM137,000,000) was recognised in administrative expenses. The recoverable amount for the impaired goodwill was RM2,169,000,000 (2014: RM45,000,000).

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

11. LONG TERM RECEIVABLES

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
Term loans and advances:				
Loans and advances due from subsidiaries	**–**	–	**157,276**	123,845
Loans and advances due from associates and joint ventures	**1,323**	1,307	**–**	–
	1,323	1,307	**157,276**	123,845
Finance lease receivables	**11,122**	9,679	**–**	–
Other receivables and prepayments	**2,059**	1,972	**631**	631
Derivative assets (note 13)	**1**	–	**–**	–
	14,505	12,958	**157,907**	124,476
Less: Impairment losses				
– Term loans and advances	**(642)**	(224)	**–**	(104)
– Other receivables and prepayments	**(84)**	(71)	**–**	–
	13,779	12,663	**157,907**	124,372

Included in the Company's loans and advances due from subsidiaries is an amount of RM139,953,962,000 (2014: RM112,764,291,000), which bears interest at rates ranging from 1.83% to 7.88% (2014: 1.46% to 7.88%) per annum.

Included in the Group's loans and advances due from associates and joint ventures is an amount of RM1,323,179,000 (2014: RM1,306,943,000), which bears interest at rates ranging from 2.26% to 10.00% (2014: 1.92% to 10.00%) per annum.

Finance lease receivables

Finance lease receivables represent lease rental and interest receivable due from customers in relation to the lease of offshore floating assets by the Group:

Group *In RM Mil*	2015	2014
Minimum lease receivables:		
Not later than 1 year	**1,637**	1,398
Later than 1 year and not later than 2 years	**2,240**	1,356
Later than 2 years and not later than 5 years	**3,880**	3,849
Later than 5 years	**8,508**	8,087
	16,265	14,690
Less: Future finance income	**(4,291)**	(4,246)
Present value of finance lease assets	**11,974**	10,444

11. LONG TERM RECEIVABLES (CONTINUED)

Finance lease receivables (continued)

Group *In RM Mil*	2015	2014
Present value of finance lease assets:		
Not later than 1 year	**852**	765
Later than 1 year and not later than 2 years	**1,580**	755
Later than 2 years and not later than 5 years	**2,353**	2,428
Later than 5 years	**7,189**	6,496
	11,974	10,444
Analysed as:		
Due within 12 months (note 16)	**852**	765
Due after 12 months	**11,122**	9,679
	11,974	10,444

The effective interest rate of the Group's finance lease receivables is between 6.16% to 16.37% (2014: 5.96% to 16.37%). Included in minimum lease receivables are the estimated unguaranteed residual values of the leased assets of RM103,929,000 (2014: RM93,404,000).

12. FUND AND OTHER INVESTMENTS

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
Non-current				
Loans and receivables				
Unquoted securities	**799**	719	**–**	–
Held-to-maturity				
Malaysian Government Securities	**1,979**	1,983	**1,959**	1,963
Corporate Private Debt Securities	**4,041**	4,459	**4,956**	5,484
	6,020	6,442	**6,915**	7,447
Available-for-sale				
Quoted shares				
– in Malaysia	**77**	74	**–**	–
Quoted securities	**26**	27	**–**	–
Unquoted shares	**510**	480	**76**	76
	613	581	**76**	76
Less: Impairment losses				
Unquoted shares	**(59)**	(8)	**–**	–
	554	573	**76**	76
Total non-current investments	**7,373**	7,734	**6,991**	7,523

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

12. FUND AND OTHER INVESTMENTS (CONTINUED)

	Group		Company	
In RM Mil	2015	2014	2015	2014
Current				
Loans and receivables				
Islamic deposits with licensed financial institutions	**622**	–	**–**	–
Available-for-sale				
Quoted shares				
– in Malaysia	**58**	300	**58**	300
– outside Malaysia	**2,949**	3,262	**–**	–
Short term marketable securities	**–**	400	**–**	350
	3,007	3,962	**58**	650
Fair value through profit or loss				
– Designated upon initial recognition				
Quoted shares				
– in Malaysia	**506**	493	**–**	–
Quoted securities				
– in Malaysia	**422**	396	**–**	–
– outside Malaysia	**–**	201	**–**	201
Malaysian Government Securities	**3**	1,194	**3**	1,194
Corporate Private Debt Securities	**3,158**	4,246	**3,291**	4,314
	4,089	6,530	**3,294**	5,709
Held-to-maturity				
Malaysian Government Securities	**–**	100	**–**	100
Corporate Private Debt Securities	**865**	1,043	**664**	1,043
	865	1,143	**664**	1,143
Total current investments	**8,583**	11,635	**4,016**	7,502
Total fund and other investments	**15,956**	19,369	**11,007**	15,025
Representing items:				
At amortised cost	**8,783**	8,803	**7,655**	8,666
At fair value	**7,173**	10,566	**3,352**	6,359
	15,956	19,369	**11,007**	15,025

Included in corporate private debt securities of the Company are securities issued by subsidiaries amounting to RM1,993,000,000 (2014: RM2,171,000,000).

13. DERIVATIVE ASSETS/LIABILITIES

		Group		Company	
In RM Mil	Note	2015	2014	2015	2014
Derivative assets					
Non-current					
Forward foreign exchange contracts		**1**	–	**–**	–
Current					
Commodity swaps		**144**	197	**–**	–
Forward gas contracts		**289**	221	**–**	–
Forward foreign exchange contracts		**26**	8	**3**	33
Forward oil price contracts		**27**	63	**–**	–
		486	489	**3**	33
Included within:					
Long term receivables	11	**1**	–	**–**	–
Trade and other receivables	16	**486**	489	**3**	33
		487	489	**3**	33
Derivative liabilities					
Non-current					
Interest rate swaps		**(1)**	–	**–**	–
Current					
Commodity swaps		**(18)**	(4)	**–**	–
Forward gas contracts		**(236)**	(129)	**–**	–
Forward foreign exchange contracts		**(761)**	(368)	**(4)**	(21)
Forward oil price contracts		**(12)**	(207)	**–**	–
		(1,027)	(708)	**(4)**	(21)
Included within:					
Other long term liabilities and provisions	24	**(1)**	–	**–**	–
Trade and other payables	25	**(1,027)**	(708)	**(4)**	(21)
		(1,028)	(708)	**(4)**	(21)

In the normal course of business, the Group and the Company enter into derivative financial instruments to manage their normal business exposures in relation to commodity prices, foreign currency exchange rates and interest rates, including management of the balance between floating rate and fixed rate debt, consistent with risk management policies and objectives.

Certain subsidiaries of the Group adopt hedge accounting whereby hedges meeting the criteria for hedge accounting are classified as cash flow hedges. The effective portion of the gain or loss on the hedging instruments is recognised directly in equity until the hedged transaction occurs, while the ineffective portion is recognised in the profit or loss. As at 31 December 2015, the balance recognised under capital reserves in equity amounts to RM9,000,000 (2014: RM249,000,000). As these amounts are not material to the Group, no full disclosure of hedge accounting is presented in the Group's financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

14. DEFERRED TAX

The components and movements of deferred tax liabilities and assets during the year prior to offsetting are as follows:

Group 2015 *In RM Mil*	At 1.1.2015	Charged/ (credited) to profit or loss	Equity	Translation exchange difference	At 31.12.2015
Deferred tax liabilities					
Property, plant and equipment	18,656	(1,736)	–	858	17,778
Others	(299)	590	59	65	415
	18,357	(1,146)	59	923	18,193
Deferred tax assets					
Property, plant and equipment	674	117	–	(3)	788
Unused tax losses	(8,560)	(1,465)	–	(269)	(10,294)
Unabsorbed capital allowances	(1,772)	(819)	–	–	(2,591)
Unused reinvestment allowances	(475)	11	–	–	(464)
Unused investment tax allowances	(2,087)	(110)	–	–	(2,197)
Others	(1,029)	270	9	30	(720)
	(13,249)	(1,996)	9	(242)	(15,478)

Group 2014 *In RM Mil*	At 1.1.2014	Charged/ (credited) to profit or loss	Acquisition of a subsidiary and an interest in a joint operation	Equity	Translation exchange difference	At 31.12.2014
Deferred tax liabilities						
Property, plant and equipment	12,807	4,631	1,145	–	73	18,656
Others	378	(473)	–	(217)	13	(299)
	13,185	4,158	1,145	(217)	86	18,357
Deferred tax assets						
Property, plant and equipment	183	251	251	–	(11)	674
Unused tax losses	(4,901)	(3,403)	(163)	(3)	(90)	(8,560)
Unabsorbed capital allowances	(248)	(1,068)	(456)	–	–	(1,772)
Unused reinvestment allowances	(235)	(18)	(223)	–	1	(475)
Unused investment tax allowances	(2,199)	103	9	–	–	(2,087)
Others	(913)	(9)	–	22	(129)	(1,029)
	(8,313)	(4,144)	(582)	19	(229)	(13,249)

14. DEFERRED TAX (CONTINUED)

Company 2015 *In RM Mil*	Opening balance	Charged/ (credited) to profit or loss	Closing balance
Deferred tax assets			
Unused tax losses	(5,361)	(1,224)	(6,585)
Property, plant and equipment	(176)	(89)	(265)
Others	(193)	13	(180)
	(5,730)	(1,300)	(7,030)

Company 2014 *In RM Mil*	Opening balance	Charged/ (credited) to profit or loss	Closing balance
Deferred tax liabilities			
Property, plant and equipment	12	(12)	–
Deferred tax assets			
Unused tax losses	(4,172)	(1,189)	(5,361)
Property, plant and equipment	–	(176)	(176)
Others	(690)	497	(193)
	(4,862)	(868)	(5,730)

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The amounts determined after appropriate offsetting are as follows:

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
Deferred tax assets				
Deferred tax liabilities	2,685	1,534	–	–
Deferred tax assets	(14,496)	(9,359)	(7,030)	(5,730)
	(11,811)	(7,825)	(7,030)	(5,730)
Deferred tax liabilities				
Deferred tax liabilities	15,508	16,823	–	–
Deferred tax assets	(982)	(3,890)	–	–
	14,526	12,933	–	–

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

14. DEFERRED TAX (CONTINUED)

No deferred tax has been recognised for the following items:

Group *In RM Mil*	2015	2014
Deductible temporary differences	**239**	42
Unabsorbed capital allowances	**580**	564
Unused tax losses	**23,553**	21,380
Unused investment tax allowances	**143**	73
	24,515	22,059

The unabsorbed capital allowances, unused tax losses and unused investment tax allowances do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

The Group and the Company have unused tax losses carried forward of approximately RM66,445,000,000 (2014: RM57,047,000,000) and RM26,806,000,000 (2014: RM22,338,000,000) respectively, which give rise to the recognised and unrecognised deferred tax assets above.

The Group also has unused investment tax allowances and unused reinvestment allowances of approximately RM9,297,000,000 (2014: RM8,769,000,000) and RM1,933,000,000 (2014: RM1,979,000,000) respectively, which give rise to the recognised and unrecognised deferred tax assets above.

15. TRADE AND OTHER INVENTORIES

	Group		Company	
In RM Mil	2015	2014	2015	2014
Crude oil and condensate	**3,020**	3,252	**143**	297
Petroleum products	**3,719**	4,759	**26**	21
Petrochemical products	**420**	491	**–**	–
Liquefied natural gas	**1,641**	1,785	**46**	151
Stores, spares and others	**2,567**	2,041	**–**	–
Developed properties held for sale	**236**	256	**–**	–
Properties under development	**1,235**	847	**–**	–
	12,838	13,431	**215**	469

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
In RM Mil	2015	2014	2015	2014
Trade receivables	**29,285**	30,299	**4,674**	3,557
Other receivables, deposits and prepayments	**12,810**	11,921	**1,761**	2,746
Amount due from:				
– contract customers	**1,168**	274	**–**	–
– subsidiaries	**–**	–	**10,580**	16,366
– associates and joint ventures	**1,070**	827	**71**	31
Tax recoverable	**3,826**	5,881	**–**	1,154
Finance lease receivables (note 11)	**852**	765	**–**	–
Derivative assets (note 13)	**486**	489	**3**	33
	49,497	50,456	**17,089**	23,887
Less: Impairment losses				
– Trade receivables	**(3,233)**	(2,185)	**(274)**	(301)
– Amount due from subsidiaries	**–**	–	**(253)**	(375)
– Other receivables, deposits and prepayments	**(1,285)**	(433)	**(15)**	(15)
	44,979	47,838	**16,547**	23,196

Amount due from subsidiaries, associates and joint ventures arose in the normal course of business.

Tax recoverable is subject to the agreement with the relevant tax authorities.

Amount due from contract customers:

Group *In RM Mil*	2015	2014
Aggregate costs incurred to date	**15,675**	12,911
Less: Progress billings	**(14,507)**	(12,637)
	1,168	274

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

17. ASSETS CLASSIFIED AS HELD FOR SALE

	Group		Company	
In RM Mil	**2015**	**2014**	**2015**	**2014**
Vessels	**–**	773	**–**	–
Land and buildings	**2**	33	**50**	17
Oil and gas properties	**–**	1,227	**–**	–
Plant and equipment	**60**	3	**–**	–
Intangible assets	**24**	37	**–**	–
Other assets	**268**	215	**–**	–
	354	2,288	**50**	17

The above amount represents carrying values of assets owned by the Group and the Company with the intention of disposal in the immediate future.

Fair value information

In accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, some of the assets classified as held for sale were written down to their fair value less costs to sell of RM354,000,000 (2014: RM2,279,000,000).

Fair value of assets classified as held for sale are categorised as follows:

Group	Level 3	
In RM Mil	**2015**	**2014**
Vessels	**–**	773
Land and buildings	**2**	33
Oil and gas properties	**–**	1,227
Plant and equipment	**60**	–
Intangible assets	**24**	37
Other assets	**268**	209
	354	2,279

17. ASSETS CLASSIFIED AS HELD FOR SALE (CONTINUED)

Fair value information (continued)

The assets classified as held for sale are stated at fair value are determined based on the following:

Vessels

The fair value of the vessels and containers were determined based on the valuation performed by independent ship valuers, taking into consideration the type, size and age of the ships and the assumptions that the ships are in good and seaworthy condition, to be transacted between willing buyer and willing seller.

Land and buildings

The fair value of land and buildings are determined based on property valuation report by external valuer and latest transacted sale of similar property.

Oil and gas properties, intangible assets and other assets

The fair value of oil and gas properties, intangible assets and other assets are determined based on the contracted price agreed with potential purchaser.

18. CASH AND CASH EQUIVALENTS

	Group		Company	
In RM Mil	**2015**	**2014**	**2015**	**2014**
Cash and bank balances	**7,705**	8,527	**1,307**	1,830
Deposits placed:				
Banks	**113,026**	108,262	**101,094**	92,673
Finance companies	**–**	37	**–**	–
	120,731	116,826	**102,401**	94,503
Less: Subsidiaries' cash with PETRONAS Integrated Financial Shared Service Centre	**–**	–	**(34,641)**	(39,060)
	120,731	116,826	**67,760**	55,443

The Company also manages the cash and cash equivalents on behalf of certain subsidiaries through its Integrated Financial Shared Service Centre in order to allow for more efficient management of cash. The cash and cash equivalents reported in the Company's financial statements do not include the amounts managed on behalf of the subsidiaries.

Included in cash and bank balances of the Group are interest-bearing balances amounting to RM5,695,414,000 (2014: RM8,374,199,000).

Included in cash and bank balances of the Group are amounts of RM58,011,000 (2014: RM45,212,000) held pursuant to the requirement of the Housing Development (Control and Licensing) Regulations 2002 and are therefore restricted from use in other operations.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

18. CASH AND CASH EQUIVALENTS (CONTINUED)

Included in deposits placed with banks of the Group is an amount of RM529,181,000 (2014: RM324,393,000) being deposits held under designated accounts for redemption of Islamic Financing Facilities.

Included in deposits placed with banks of the Group is an amount of RM33,314,000 (2014: RM31,068,000) which are restricted for certain payments under the requirements of the borrowing facilities agreement.

19. SHARE CAPITAL

Company *In RM Mil*	**2015**	**2014**
Authorised: 500,000 ordinary shares of RM1,000 each	**500**	500
Issued and fully paid: 100,000 ordinary shares of RM1,000 each	**100**	100

20. RESERVES

The Company has sufficient retained earnings to distribute the followings dividends:

i. Dividends paid out of income derived from petroleum operations which are not chargeable to tax pursuant to the Petroleum (Income Tax) Act 1967.

ii. Single tier dividends paid out of income derived from other operations other than petroleum which are exempt in the hands of shareholder pursuant to Paragraph 12B, Schedule 6 of the Income Tax Act, 1967.

iii. Exempt dividends paid out of income which are exempt pursuant to Section 12 of Income Tax (Amendment) Act, 1999, Paragraph 28, Schedule 6 and Schedule 7A of the Income Tax Act, 1967.

Capital Reserves

Capital reserves represent primarily reserves created upon issuance of bonus shares and redemption of preference shares by subsidiaries and the Group's share of its associate companies' reserves.

Foreign Currency Translation Reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of subsidiaries whose functional currencies are different from that of the Company's functional currency as well as foreign currency differences arising from the translation of monetary items that are considered to form part of a net investment in a foreign operation.

20. RESERVES (CONTINUED)

Available-for-sale Reserve

This reserve records the changes in fair value of available-for-sale investments. On disposal or impairment, the cumulative changes in fair value are transferred to the profit or loss.

General Reserve

General reserve represents appropriation of retained profits for general purposes rather than for a specific item of future loss or expense. In effect, it is a reserve for unspecified possible events.

21. NON-CONTROLLING INTERESTS

This consists of the non-controlling interests' proportion of share capital and reserves of partly-owned subsidiaries.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

22. BORROWINGS

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
Non-current				
Secured				
Term loans	**2,134**	918	**–**	–
Islamic financing facilities	**935**	1,495	**–**	–
Total non-current secured borrowings	**3,069**	2,413	**–**	–
Unsecured				
Term loans	**6,558**	9,282	**–**	–
Notes and Bonds	**35,167**	15,673	**35,167**	15,673
Islamic financing facilities	**9,145**	2,704	**5,366**	–
Total non-current unsecured borrowings	**50,870**	27,659	**40,533**	15,673
Total non-current borrowings	**53,939**	30,072	**40,533**	15,673
Current				
Secured				
Term loans	**203**	690	**–**	–
Islamic financing facilities	**611**	145	**–**	–
Revolving credits	**–**	151	**–**	–
Total current secured borrowings	**814**	986	**–**	–
Unsecured				
Term loans	**1,142**	726	**–**	–
Notes and Bonds	**–**	2,184	**–**	2,184
Islamic financing facilities	**257**	543	**–**	–
Revolving credits	**1,602**	2,179	**–**	–
Bank overdrafts	**148**	144	**–**	–
Total current unsecured borrowings	**3,149**	5,776	**–**	2,184
Total current borrowings	**3,963**	6,762	**–**	2,184
Total borrowings	**57,902**	36,834	**40,533**	17,857

22. BORROWINGS (CONTINUED)

Terms and debt repayment schedule

In RM Mil	Total	Under 1 year	1-2 years	2-5 years	Over 5 years
Group					
Secured					
Term loans	**2,337**	**203**	**211**	**624**	**1,299**
Islamic financing facilities	**1,546**	**611**	**290**	**594**	**51**
	3,883	**814**	**501**	**1,218**	**1,350**
Unsecured					
Term loans	**7,700**	**1,142**	**883**	**5,433**	**242**
Notes and Bonds	**35,167**	**–**	**–**	**12,830**	**22,337**
Islamic financing facilities	**9,402**	**257**	**358**	**6,393**	**2,394**
Revolving credits	**1,602**	**1,602**	**–**	**–**	**–**
Bank overdrafts	**148**	**148**	**–**	**–**	**–**
	54,019	**3,149**	**1,241**	**24,656**	**24,973**
	57,902	**3,963**	**1,742**	**25,874**	**26,323**
Company					
Unsecured					
Notes and Bonds	**35,167**	**–**	**–**	**12,830**	**22,337**
Islamic financing facilities	**5,366**	**–**	**–**	**5,366**	**–**
	40,533	**–**	**–**	**18,196**	**22,337**

Islamic financing facilities

Details of Islamic financing facilities are included in note 23.

Unsecured term loans

The unsecured term loans obtained by the subsidiaries primarily comprise:

In Mil	2015	2014
USD Term loans	**US$2,615**	US$2,599
EURO Term loans	**€447**	€441

These unsecured term loans bear interest at rates ranging from 1.00% to 2.08% (2014: 1.00% to 2.08%) per annum and are fully repayable at their various due dates from 2016 to 2024.

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2015 (continued)

22. BORROWINGS (CONTINUED)

Unsecured Notes and Bonds

The unsecured Notes and Bonds comprise:

In Mil	2015	2014
USD Notes and Bonds:		
7 3/4% Bonds due 2015#	–	US$625
5 1/4% Guaranteed Notes due 2019^	**US$3,000**	US$3,000
7 7/8% Notes due 2022^	**US$1,000**	US$1,000
3 1/8% Guaranteed Notes due 2022^	**US$750**	–
3 1/2% Guaranteed Notes due 2025^	**US$1,500**	–
7 5/8% Bonds due 2026#	**US$500**	US$500
4 1/2% Guaranteed Notes due 2045^	**US$1,500**	–

\# Obtained by the Company.
^ Obtained by the Company via a subsidiary.

Secured term loans

The secured term loans obtained by the subsidiaries primarily comprise:

In Mil	Securities	2015	2014
USD Term loans	Secured by way of a charge over certain vessels and property, plant and equipment, together with assignments of earnings, charter agreements and insurance of the relevant vessels, property, plant and equipment of certain subsidiaries.	**US$469**	US$773
RM Term loans	Secured by way of a charge over certain property, plant and equipment and investment properties, together with assignments of earnings and insurance of the relevant property, plant and equipment of certain subsidiaries.	**RM763**	RM1,373

The secured term loans bear interest at rates ranging from 1.34% to 5.00% (2014: 1.34% to 5.00%) per annum and are fully repayable at their various due dates from 2016 to 2022.

Unsecured revolving credits, bankers' acceptances and bank overdrafts

The unsecured revolving credits, bankers' acceptances and bank overdrafts are obtained by the subsidiaries and primarily bear interest at rates ranging from 0.34% to 8.90% (2014: 0.34% to 8.00%) per annum.

22. BORROWINGS (CONTINUED)

In connection with the long term borrowing facility agreements, the Group and the Company have agreed on the following significant covenants with the lenders:

i. not to allow any material indebtedness (the minimum aggregate amount exceeding US$30,000,000 or its equivalent in any other currency) for borrowed money of the Company to become due or capable of being declared due before its stated maturity, any guarantee of the Company for material indebtedness of any other person is not discharged at maturity or when validly called or the Company goes into default;

ii. the Company (not including any of its subsidiaries) not to create, incur or have outstanding any mortgage, pledge, lien, charge, encumbrance or any other lien upon the whole or any part of its property or assets, present or future indebtedness of itself or any other person, unless the aggregate outstanding principal amount of all such secured indebtedness (other than indebtedness secured by the liens already in existence) plus attributable debt of the Company in respect of sales and leaseback transactions would not exceed 10% of the consolidated net tangible assets;

iii. the Company (not including any of its subsidiaries) not to enter into any sale and leaseback transaction, unless the attributable debt in respect of such sale and leaseback transaction and all other sale and leaseback transaction plus the aggregate outstanding principal amount of indebtedness for borrowed money secured by security interests (other than permitted security interests) then outstanding which have not equally and rateably secured the total outstanding would not exceed 10% of the Company's consolidated net tangible assets provided that, within 12 months after such sale and leaseback transaction, it applies to the retirement of indebtedness for borrowed money the repayment obligations in respect of which are at least pari passu with its repayment obligations hereunder and which are not secured by any security interest, an amount equal to the greater of:

- the net proceeds of the sale or transfer of the property or other assets which are the subject of such sale and leaseback transaction as determined by the Company; or
- the fair market value of the property or other assets so leased as determined by the Company;

iv. neither the Company nor PETRONAS Capital Limited ("PCL"), without consent of a majority lenders may consolidate with, or merge into, or sell, transfer, lease or convey substantially all of its assets to any corporation unless any successor corporation expressly assumes the obligations of the Company or PCL, as the case may be under the Notes and Bond.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

23. ISLAMIC FINANCING FACILITIES

Secured Islamic Financing Facilities

The secured Islamic financing facilities obtained by the subsidiaries comprise:

In RM Mil	**2015**	**2014**
Al Bai'bithaman Ajil Facilities	**300**	300
Bai' Al-Dayn Note Issuance Facilities	**106**	85
Murabahah Medium Term Notes	**2,495**	2,510

The secured Islamic financing facilities bear a yield payable ranging from 4.14% to 6.72% (2014: 4.41% to 6.72%) per annum and are fully repayable at their various due dates from 2016 to 2022.

The Islamic financing facilities are secured by way of a charge over certain property, plant and equipment and investment properties.

Unsecured Islamic Financing Facilities

The unsecured Islamic financing facilities obtained by the subsidiaries comprise:

In Mil	**2015**	**2014**
Murabahah Note Issuance Facilities	**RM21**	RM321
Murabahah Note Issuance Facilities	**CNY216**	–
Sukuk Musyarakah	**RM4,522**	RM5,100
Bai' Al-Dayn Note Issuance Facilities	**RM122**	RM122
Trust Certificates^	**US$1,250**	–

^ Obtained by the Company via a subsidiary.

The unsecured Islamic financing facilities bear a yield payable ranging from 3.53% to 6.90% (2014: 3.53% to 7.35%) per annum and are fully repayable at their various due dates from 2016 to 2023.

In this current financial year, the Company has obtained the above Trust Certificates financing via a subsidiary of the Group (referred to as special purpose vehicle or "SPV"). In relation to this financing arrangement, the SPV purchased beneficial ownership in certain shariah-compliant assets from a wholly owned subsidiary of the Company (≥33% of trust certificates issued) and lease the assets to the Company at a rental rate of 2.71% per annum. The remaining portion of the trust certificates (≤67%) constitute the sale of shariah-compliant commodities to the Company based on deferred payment arrangement.

24. OTHER LONG TERM LIABILITIES AND PROVISIONS

	Group		**Company**	
In RM Mil	**2015**	**2014**	**2015**	**2014**
Provision for decommissioning of:				
– oil and gas properties	**20,848**	19,578	**14,321**	16,002
– other property, plant and equipment	**338**	319	**–**	–
Financial guarantees	**523**	452	**565**	504
Derivative liabilities (note 13)	**1**	–	**–**	–
Others	**13,415**	11,003	**11,439**	9,142
	35,125	31,352	**26,325**	25,648

Provision for decommissioning of oil and gas properties and other property, plant and equipment is recognised when there is an obligation to decommission and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reasonable estimate of that liability can be made.

The provision recognised is the present value of the estimated future costs determined in accordance with local conditions and requirements net of, in the case of oil and gas properties, amounts received and estimated future funds receivable from contractors pursuant to the terms of the various production sharing contracts that the Company has entered into.

A corresponding asset of an amount equivalent to the provision is also created. This asset is depreciated in accordance with the policy set out in note 2.4. The increase in the present value of the provision for the expected costs due to the passage of time is included within finance costs.

Most of these removal events are many years in the future and the precise requirements that will have to be met when the removal events actually occur are uncertain. Because actual timing and net cash outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, the carrying amounts of provisions, together with the interest rate used in discounting the cash flows and inflation rate, are regularly reviewed and adjusted to take into account of such changes. The interest rate and inflation rate used to determine the obligation as at 31 December 2015 was 4.40% (2014: 4.29%) per annum and 2.50% (2014: 2.90%) per annum respectively. Changes in the expected future costs are reflected in both the provision and the asset.

The movement of provision for decommissioning during the financial year are as follows:

In RM Mil	**Group**	**Company**
At 1 January 2015	**19,897**	**16,002**
Net changes in provision	**(144)**	**(2,401)**
Provision utilised	**(264)**	**–**
Unwinding of discount	**888**	**720**
Translation exchange difference	**809**	**–**
At 31 December 2015	**21,186**	**14,321**

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2015 (continued)

24. OTHER LONG TERM LIABILITIES AND PROVISIONS (CONTINUED)

Net changes in provision include foreign exchange gains or losses arising from retranslation of the provision and are adjusted against the carrying amount of the corresponding asset accordingly.

During the year, the Company revised its estimated future costs of decommissioning of oil and gas properties resulting from changes in estimated cash flows. The revision was accounted for prospectively as a change in accounting estimates resulting in the following:

i. decrease in other long term liabilities and provisions by RM2,505,000,000;
ii. decrease in cost of property, plant and equipment by RM1,629,000,000; and
iii. increase in net profits by RM876,000,000.

25. TRADE AND OTHER PAYABLES

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
Trade payables	**22,408**	24,843	**791**	891
Other payables	**39,870**	33,388	**10,892**	11,739
Amount due to:				
– Subsidiaries	**–**	–	**7,163**	8,592
– Associates and joint ventures	**1,914**	1,186	**48**	35
Derivative liabilities (note 13)	**1,027**	708	**4**	21
	65,219	60,125	**18,898**	21,278

Included in other payables of the Group are security deposits of RM131,709,000 (2014: RM136,576,000) mainly held in respect of tenancies of a shopping centre and office buildings. These deposits are refundable upon termination of the respective lease agreements.

Also included in trade payables of the Group are retention sums on construction contracts amounting to RM153,031,000 (2014: RM164,148,000).

Amount due to subsidiaries, associates and joint ventures arose in the normal course of business.

26. GROSS PROFIT

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
Revenue				
– sales of oil and gas	**228,064**	305,770	**70,009**	97,222
– others	**802**	5,070	**3,396**	10,282
	228,866	310,840	**73,405**	107,504
– rendering of services	**4,494**	4,562	**621**	15
– shipping and shipping related services	**6,787**	6,402	**–**	–
– sale and rental of properties	**2,701**	2,810	**–**	–
	13,982	13,774	**621**	15
– dividend income				
in Malaysia (Quoted)				
– subsidiaries	**–**	–	**2,392**	2,692
– associates	**–**	–	**33**	33
– investments	**1**	6	**1**	6
in Malaysia (Unquoted)				
– subsidiaries	**–**	–	**18,445**	22,994
– investments	**62**	21	**62**	21
outside Malaysia (Quoted)				
– investments	**89**	232	**–**	–
outside Malaysia (Unquoted)				
– joint ventures	**–**	–	**133**	30
	152	259	**21,066**	25,776
– interest income	**4,657**	4,275	**3,105**	2,720
	247,657	329,148	**98,197**	136,015
Cost of revenue				
– cost of sales	**(165,752)**	(206,469)	**(57,570)**	(71,432)
– cost of services	**(10,928)**	(9,955)	**–**	–
	(176,680)	(216,424)	**(57,570)**	(71,432)
Gross profit	**70,977**	112,724	**40,627**	64,583

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

27. OPERATING PROFIT

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
Included in operating profit are the following charges:				
Audit fees	**35**	32	**2**	2
Amortisation of:				
– intangible assets	**3,526**	6,470	**–**	–
– prepaid lease payments	**44**	43	**–**	–
Bad debts written off:				
– trade and other receivables	**4**	137	**–**	120
– receivables from subsidiaries	**–**	–	**5**	4
Contribution to Tabung Amanah Negara	**–**	1,000	**–**	1,000
Depreciation of property, plant and equipment and investment properties	**20,688**	20,742	**1,387**	2,415
Net impairment losses on:				
– property, plant and equipment	**13,171**	20,699	**355**	923
– intangible assets	**3,319**	1,824	**–**	–
– investments in associates and joint ventures	**1,307**	1,087	**–**	–
– trade and other receivables	**1,275**	–	**–**	–
– loan and advances to joint ventures	**336**	40	**–**	–
– investments in subsidiaries	**–**	–	**90**	147
– other investments	**1,793**	575	**–**	–
Inventories written down to net realisable value	**450**	476	**–**	–
Net loss on foreign exchange	**–**	1,842	**–**	–
Operating lease rental	**1,842**	1,497	**631**	627
Property, plant and equipment written off	**657**	217	**–**	145
Rental of:				
– plant, machinery, equipment and motor vehicles	**372**	568	**27**	16
– land and buildings	**609**	457	**131**	29
Research and development expenditure	**104**	24	**18**	2
Staff costs:				
– wages, salaries and others	**9,362**	8,666	**1,306**	1,273
– contributions to Employee's Provident Fund	**970**	920	**212**	204

27. OPERATING PROFIT (CONTINUED)

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
and credits:				
Gain on bargain purchase	**335**	974	**–**	–
Gain on disposal/partial disposal of:				
– other investments	**35**	240	**14**	–
– property, plant and equipment	**37**	976	**143**	–
– a joint venture	**64**	–	**–**	–
– subsidiaries	**–**	175	**5,045**	–
Interest income – others	**664**	552	**5,741**	4,488
Reversal of inventories written down to net realisable value	**54**	–	**–**	–
Rental income on land and buildings	**293**	483	**224**	314
Net write back of impairment losses on:				
– trade and other receivables	**–**	282	**–**	–
– amount due from subsidiaries	**–**	–	**119**	–
– loan and advances to subsidiaries	**–**	–	**104**	6
Net gain on foreign exchange	**98**	–	**16,062**	3,469

28. TAX EXPENSE

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
Current tax expenses				
Malaysia				
Current year	**16,086**	29,475	**5,982**	14,846
Prior year	**1,785**	(1,088)	**1,024**	(192)
Overseas				
Current year	**1,266**	1,705	**–**	–
Prior year	**(172)**	(28)	**–**	–
Total current tax expenses	**18,965**	30,064	**7,006**	14,654
Deferred tax expenses				
Origination and reversal of temporary differences	**(4,538)**	(2,038)	**(609)**	(500)
Under/(over) provision in prior year	**1,396**	2,052	**(691)**	(380)
Total deferred tax expenses	**(3,142)**	14	**(1,300)**	(880)
Total tax expenses	**15,823**	30,078	**5,706**	13,774

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

28. TAX EXPENSE (CONTINUED)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

In RM Mil	%	2015	%	2014
Group				
Profit before taxation		**36,683**		77,691
Taxation at Malaysian statutory tax rate	**25**	**9,171**	25	19,423
Effect of different tax rates in foreign jurisdictions	**–**	**153**	1	690
Effect of different tax rates between corporate income tax and petroleum income tax	**6**	**2,216**	6	4,538
Effect of changes in tax rates	**1**	**367**	1	418
Non deductible expenses, net of non assessable income	**3**	**993**	3	2,729
Tax exempt income	**–**	**(179)**	–	(295)
Tax incentives	**(2)**	**(861)**	–	(167)
Effect of net deferred tax benefits not recognised	**2**	**589**	2	1,648
Foreign exchange translation difference	**1**	**365**	–	158
	36	**12,814**	38	29,142
Under provision in prior years		**3,009**		936
Tax expense		**15,823**		30,078
Company				
Profit before taxation		**61,061**		67,807
Taxation at Malaysian statutory tax rate	**25**	**15,265**	25	16,952
Effect of different tax rates between corporate income tax and petroleum income tax	**4**	**2,189**	7	4,845
Effect of changes in tax rates	**–**	**(147)**	–	54
Non assessable income, net of non deductible expenses	**(11)**	**(6,667)**	(2)	(1,061)
Tax exempt income	**(9)**	**(5,267)**	(10)	(6,444)
	9	**5,373**	20	14,346
Under/(over) provision in prior years		**333**		(572)
Tax expense		**5,706**		13,774

29. DIVIDENDS

Company *In RM Mil*	2015	2014
Ordinary:		
Final:		
Tax exempt dividend of RM220,000 (2014: RM220,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial year 31 December 2014 (2014: 31 December 2013)	**22,000**	22,000
Interim:		
Second tax exempt dividend of RM40,000 (2014: First tax exempt dividend of RM20,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial year 31 December 2014 (2014: 31 December 2014)	**4,000**	2,000
	26,000	24,000
Proposed:		
Final:		
Tax exempt dividend of RM160,000 (2014: RM220,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial year 31 December 2015 (2014: 31 December 2014)	**16,000**	22,000

The proposed tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM160,000 per ordinary share amounting to RM16 billion in respect of the financial year ended 31 December 2015, has not been accounted for in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2015 (continued)

30. NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES

The cash (used in)/generated from investing activities comprise:

	Group		Company	
In RM Mil	2015	2014	2015	2014
Acquisition of:				
– subsidiaries, net of cash acquired	**–**	(2,076)	**–**	(1,999)
– interest in a joint operation, net of cash acquired	**–**	(4,411)	**–**	–
– additional shares in subsidiaries	**–**	–	**(2,266)**	(414)
Dividends received	**1,234**	1,928	**21,032**	29,946
Investment in:				
– associates, joint ventures and unquoted companies	**(4,046)**	(294)	**–**	–
– securities and other investments	**(2,267)**	(4,850)	**(772)**	(4,112)
Long term receivables and advances (to)/repaid from:				
– subsidiaries	**–**	–	**(18,070)**	(1,459)
– associates and joint ventures	**231**	45	**–**	–
Other long term receivables	**174**	15	**–**	–
Proceeds from disposal/partial disposal of:				
– investment in subsidiaries, net of cash disposed	**–**	12	**5,239**	–
– investment in joint ventures	**3,246**	–	**–**	–
– property, plant and equipment, investment properties, prepaid lease payments, intangible assets and assets classified as held for sale	**627**	8,905	**174**	1
– securities and other investments	**4,646**	7,793	**4,603**	7,465
Purchase of property, plant and equipment, investment properties, prepaid lease payments and intangible assets	**(64,658)**	(64,648)	**(1,449)**	(1,631)
Redemption of preference shares in subsidiaries	**–**	–	**110**	40
	(60,813)	(57,581)	**8,601**	27,837

31. NET CASH USED IN FINANCING ACTIVITIES

The cash used in financing activities comprise:

	Group		Company	
In RM Mil	2015	2014	2015	2014
Dividends paid	**(26,000)**	(29,000)	**(26,000)**	(29,000)
Dividends paid to non-controlling interests	**(7,250)**	(12,160)	**–**	–
Drawdown of:				
– Islamic financing facilities	**5,720**	937	**4,582**	–
– term loans, notes and bonds	**15,323**	5,175	**13,746**	–
– revolving credits and bankers' acceptances	**1,517**	2,335	**–**	–
Repayment of:				
– Islamic financing facilities	**(444)**	(6,833)	**–**	–
– term loans, notes and bonds	**(7,224)**	(5,200)	**(2,163)**	(4,746)
– revolving credits and bankers' acceptances	**(2,503)**	(2,971)	**–**	–
Payment to non-controlling interests on redemption of redeemable preference shares	**(111)**	–	**–**	–
Payment to non-controlling interests on additional equity interest	**(564)**	–	**–**	–
Proceeds from partial disposal of equity interests to non-controlling interest	**5,179**	–	**–**	–
Proceeds from shares issued to non-controlling interests	**103**	171	**–**	–
	(16,254)	(47,546)	**(9,835)**	(33,746)

32. SIGNIFICANT EVENT

In May 2015, the Malaysia LNG Dua Joint Venture Agreement ("JVA") expired and the Company acquired 30% shareholding in MLNG Dua Sdn. Bhd. ("MLNG Dua") from Shell Gas Holdings (Malaysia) Limited and Mitsubishi Corporation ("Mitsubishi"), in accordance with the original JVA terms. Subsequently, the Company sold 10% interest in MLNG Dua to Diamond LNG Malaysia Sdn. Bhd., a wholly owned subsidiary of Mitsubishi. With the completion of the transactions, the Company now holds 80% interest in MLNG Dua.

NOTES TO THE **FINANCIAL STATEMENTS**

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33. OPERATING LEASES

Leases as lessor

The Group via its subsidiary has entered into non-cancellable operating lease agreements for Government Office Buildings ("GOB") in accordance with the Concession Agreement ("CA") with the Government of Malaysia. Under the CA, the Group will construct various parcels of GOB on land belonging to the Government. Upon completion of each parcel, the Government will execute a 25-year lease agreement over the land of the said parcel to the Group. Simultaneously, the Group will sub-lease over the same land and buildings to the Government for the same period in return for lease rentals based on predetermined rates per square foot per month.

These leases have remaining period of non-cancellable lease terms between 10 and 25 years.

The future minimum lease receivable under non-cancellable operating leases contracted for as at the reporting date but not recognised as receivables are as follows:

Group *In RM Mil*	2015	2014
Less than one year	**2,850**	2,580
Between one and five years	**10,674**	8,653
More than five years	**18,964**	15,464
	32,488	26,697

Leases as lessee

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
In RM Mil	2015	2014	2015	2014
Less than one year	**1,213**	1,236	**493**	483
Between one and five years	**2,809**	2,623	**1,992**	1,991
More than five years	**1,234**	1,264	**3,280**	3,750
	5,256	5,123	**5,765**	6,224

34. COMMITMENTS

Outstanding commitments in respect of capital expenditure at the end of the reporting year not provided for in the financial statements are:

	Group		Company	
In RM Mil	2015	2014	2015	2014
Property, plant and equipment				
Approved and contracted for				
Less than one year	**56,270**	39,826	**435**	2,382
Between one and five years	**37,951**	50,641	**1,044**	10,874
	94,221	90,467	**1,479**	13,256
Approved but not contracted for				
Less than one year	**19,375**	17,924	**–**	19
Between one and five years	**55,777**	30,111	**–**	–
	75,152	48,035	**–**	19
	169,373	138,502	**1,479**	13,275
Share of capital expenditure of joint venture				
Approved and contracted for				
Less than one year	**9,854**	7,756	**–**	–
Between one and five years	**2,114**	899	**–**	–
More than five years	**397**	703	**–**	–
	12,365	9,358	**–**	–
Approved but not contracted for				
Less than one year	**6,590**	4,419	**–**	–
Between one and five years	**41,949**	18,624	**–**	–
More than five years	**6,646**	170	**–**	–
	55,185	23,213	**–**	–
	67,550	32,571	**–**	–
Total commitments	**236,923**	171,073	**1,479**	13,275

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

35. CONTINGENT LIABILITIES

In RM Mil	Group 2015	Group 2014	Company 2015	Company 2014
Secured				
Guarantees extended to third parties	**–**	53	**–**	–
Unsecured				
Guarantees extended to third parties	**177**	388	**–**	–
Claims filed by/disputes with various parties	**53**	84	**53**	53
Contingent payments	**87**	82	**–**	–
	317	554	**53**	53

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 now estimate with sufficient reliability the ultimate financial obligation, if any, under this litigation, since it has not gone for full trial yet.

Other guarantees

Other than those disclosed elsewhere in the financial statements, the Group and the Company had entered into agreements which may include agreements to provide guarantees to third parties for the benefit of subsidiaries, associates and joint ventures ("Guaranteed Entities"). Such unsecured guarantees are normally provided in support of the Guaranteed Entities' normal and on-going business requirements, consistent with generally acceptable and recognised industry practices. The liability of the Group and the Company is therefore contingent and would only trigger upon the default of the Guaranteed Entities' obligation under the guarantee.

36. RELATED PARTY DISCLOSURES

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly and an entity that provides key management personnel services to the Group. The key management personnel comprises all the Directors of the Company.

The Company's related parties include key management personnel, subsidiaries, associates, joint ventures as well as the Government of Malaysia and its related entities as the Company is wholly-owned by the Government of Malaysia.

36. RELATED PARTY DISCLOSURES (CONTINUED)

Key management personnel compensation

In RM Mil	Group and Company 2015	Group and Company 2014
Directors remuneration:		
– Fees	**4**	4
– Emoluments	**29**	34

The estimated monetary value of Directors' benefits-in-kind is RM140,000 (2014: RM167,000).

Significant transactions with related parties

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

Group *In RM Mil*	2015	2014
Federal and State Governments of Malaysia:		
Petroleum proceeds	**8,175**	12,003
Lease income receivable	**1,362**	1,329
Sales of petroleum products	**311**	400
Government of Malaysia's related entities:		
Sales of petroleum products, processed gas and utilities	**8,379**	11,329
Associate companies:		
Sales of petrochemical products, processed gas and utilities	**5,023**	4,567
Purchase of petrochemical products, processed gas and utilities	**(15)**	(102)
Lease and rental expenses	**(274)**	(275)
Joint ventures:		
Sales of petrochemical products, processed gas, petroleum products and general merchandise	**37**	40
Interest receivable from joint ventures	**69**	57
Gas processing fee payable	**(126)**	(174)
Other expenses	**(220)**	(232)
Other income	**27**	307

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

36. RELATED PARTY DISCLOSURES (CONTINUED)

Significant transactions with related parties (continued)

Company *In RM Mil*	**2015**	**2014**
Federal and State Governments of Malaysia:		
Petroleum proceeds	**8,175**	12,003
Government of Malaysia's related entities:		
Sales of processed gas	**5,210**	6,809
Subsidiaries:		
Sales of crude oil, petroleum products, processed gas and natural gas	**41,111**	57,279
Interest receivable from subsidiaries	**5,333**	4,179
Purchase of crude oil, natural gas and liquefied natural gas	**(27,832)**	(36,754)
Gas processing fee payable	**(4,221)**	(3,365)
Research cess	**181**	184
Supplemental payments and signature bonus	**2,321**	4,977
Contribution to fund	**201**	144
Associate companies:		
Sales of processed gas	**3,431**	2,281
Joint ventures:		
Gas processing fee payable	**(126)**	(174)

Information regarding outstanding balances arising from related party transactions as at 31 December 2015 are disclosed in note 11, note 16 and note 25.

Information regarding impairment losses on receivables and bad debts written off during the financial year are disclosed in note 27.

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established on a commercial basis.

37. OPERATING SEGMENTS, PRODUCTS AND SERVICES AND GEOGRAPHICAL INFORMATION

The Group's reportable segments comprise of Upstream and Downstream. Each reportable segment offers different products and services and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

- Upstream - activities include oil and natural gas exploration, development and production, together with related pipeline and transportation activities as well as purchase and liquefaction of natural gas and marketing and trading of liquefied natural gas ("LNG") and sales gas.
- Downstream - activities include the supply and trading, refining, manufacturing, marketing and transportation of crude oil, petroleum and petrochemical products as well as gas processing operations and power business.

Corporate and Others comprises primarily logistic and maritime segment, property segment and central treasury function.

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

There are varying levels of integration between Upstream segment, Downstream segment and others. This integration includes transfers of products and services between segments. Inter-segment pricing is established on a commercial basis.

Inter-segment revenues includes sales of crude oil and condensates, petroleum products, sales gas, and shipping services between business segments. These transactions are eliminated on consolidation.

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 Executive Committee believes that such information is the most relevant in evaluating the results of the segments.

Segment assets are measured based on total assets (including goodwill) of a segment, as included in the internal management reports and are used to measure the return of assets of each segment.

Segment liabilities information is neither included in the internal management reports nor provided regularly to the Executive Committee. Hence, no disclosure is made on segment liability.

Segment capital expenditure is the total cost incurred during the financial year to acquire non-current assets other than financial instruments and deferred tax assets.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

37. OPERATING SEGMENTS, PRODUCTS AND SERVICES AND GEOGRAPHICAL INFORMATION (CONTINUED)

Group 2015 *In RM Mil*	Upstream	Downstream	Corporate and Others	Consolidation adjustments and eliminations	Total
Revenue					
Third parties	**121,922**	**111,408**	**14,327**	**–**	**247,657**
Inter-segment	**23,798**	**5,289**	**4,356**	**(33,443)**	**–**
Total revenue	**145,720**	**116,697**	**18,683**	**(33,443)**	**247,657**
Reportable segment profit	**1,609**	**8,909**	**7,307**	**[a] 3,035**	**20,860**
Included in the measure of segment profit are:					
Depreciation and amortisation	**(18,006)**	**(3,709)**	**(2,543)**	**–**	**(24,258)**
Impairment losses	**(20,178)**	**(374)**	**(649)**	**–**	**(21,201)**
Interest income	**965**	**806**	**3,569**	**(19)**	**5,321**
Interest expense	**(4,062)**	**(240)**	**(2,335)**	**3,310**	**(3,327)**
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	**440**	**173**	**425**	**–**	**1,038**
Tax expense	**(13,233)**	**(2,094)**	**(180)**	**(316)**	**(15,823)**
Segment assets	**326,725**	**116,636**	**177,543**	**(28,997)**	**591,907**
Included in the measure of segment assets are:					
Investments in associates and joint ventures	**7,095**	**3,432**	**2,491**	**–**	**13,018**
Additions to non-current assets other than financial instruments and deferred tax assets	**51,739**	**17,024**	**4,425**	**–**	**73,188**

a Comprise consolidation adjustments in relation to unrealised gains and losses on inventory, intercompany borrowing costs capitalised as part of the cost of a qualifying asset, and reclassification of foreign exchange gains and losses to other comprehensive income arising from intercompany receivables that are considered to form part of the net investment in foreign operations (note 2.20).

37. OPERATING SEGMENTS, PRODUCTS AND SERVICES AND GEOGRAPHICAL INFORMATION (CONTINUED)

Group 2014 *In RM Mil*	Upstream	Downstream	Corporate and Others	Consolidation adjustments and eliminations	Total
Revenue					
Third parties	165,257	150,363	13,528	–	329,148
Inter-segment	32,133	7,099	4,066	(43,298)	–
Total revenue	197,390	157,462	17,594	(43,298)	329,148
Reportable segment profit	32,380	5,743	5,848	[a] 3,642	47,613
Included in the measure of segment profit are:					
Depreciation and amortisation	(21,510)	(3,426)	(2,319)	–	(27,255)
Impairment losses	(23,627)	(72)	(244)	–	(23,943)
Interest income	1,187	743	3,103	(206)	4,827
Interest expense	(3,671)	(304)	(1,686)	3,005	(2,656)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	636	575	526	–	1,737
Tax expense	(27,668)	(1,646)	(303)	(461)	(30,078)
Segment assets	314,502	104,934	155,769	(37,718)	537,487
Included in the measure of segment assets are:					
Investments in associates and joint ventures	4,056	2,372	6,038	–	12,466
Additions to non-current assets other than financial instruments and deferred tax assets	53,423	9,665	3,379	–	66,467

a Comprise consolidation adjustments in relation to unrealised gains and losses on inventory, intercompany borrowing costs capitalised as part of the cost of a qualifying asset, and reclassification of foreign exchange gains and losses to other comprehensive income arising from intercompany receivables that are considered to form part of the net investment in foreign operations (note 2.20).

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

37. OPERATING SEGMENTS, PRODUCTS AND SERVICES AND GEOGRAPHICAL INFORMATION (CONTINUED)

Products and services information

The following are revenue from external customers by products and services:

Group *In RM Mil*	Revenue 2015	 2014
Petroleum products	**80,619**	109,495
Crude oil and condensates	**42,013**	66,180
Liquefied natural gas	**54,084**	74,777
Sales and natural gas	**38,169**	40,918
Petrochemicals	**13,179**	14,400
Shipping services	**6,787**	6,402
Investment income	**4,657**	4,275
Others	**8,149**	12,701
	247,657	329,148

Geographical information

Geographical revenue is determined based on location of customers. The amounts presented in non-current assets are based on the geographical location of the assets and do not include financial instruments (including investment in associates and joint ventures) nor deferred tax assets.

Group *In RM Mil*	Revenue 2015	 2014
Asia	**72,098**	109,246
Malaysia	**65,951**	78,117
Japan	**35,539**	52,669
Rest of the world	**74,069**	89,116
	247,657	329,148

Group *In RM Mil*	Non-current assets 2015	 2014
Malaysia	**235,656**	214,454
Asia	**42,322**	21,192
Rest of the world	**80,463**	69,135
	358,441	304,781

37. OPERATING SEGMENTS, PRODUCTS AND SERVICES AND GEOGRAPHICAL INFORMATION (CONTINUED)

Major customers

As at 31 December 2015 and 31 December 2014, there are no major customers with revenue that contribute to more than 10 percent of Group revenue.

38. PETROLEUM ARRANGEMENTS

The Petroleum Development Act, 1974 vests the entire ownership, rights, powers, liberties and privileges of exploiting petroleum resources on land and offshore Malaysia in PETRONAS.

The monetisation of petroleum resources is carried out primarily by means of production sharing contracts ("PSCs") between PETRONAS, its subsidiaries and other oil and gas companies ("PSC Contractors"). Under the terms of the various PSCs, the PSC Contractors shall bear all the costs and recover their costs in barrels of crude oil or gas equivalent in accordance with the terms of their respective PSCs.

Certain terms of the PSCs are:

i. Research cess, supplemental payments and crude oil or gas entitlement

The determination of research cess, supplemental payments, and PETRONAS' and the PSC Contractors' entitlements to crude oil or gas produced subsequent to 31 December 1992 have been based on the returns submitted by PSC Contractors and is dependent on agreement being reached on the method of valuation of crude oil or gas and the quantum of costs incurred and claimed by contractors subject to the maximum rate provided under the respective PSCs for the year. PETRONAS' entitlements to crude oil and natural gas are taken up as income on the basis of liftings and sales respectively made by the Company.

ii. Property, plant and equipment

Title to all equipment and other assets purchased or acquired by PSC Contractors exclusively for the purpose of petroleum operations, and which costs are recoverable in barrels of cost oil or gas equivalent, is vested with PETRONAS. However, the values of these assets are not taken up in the financial statements of PETRONAS other than:

- the property, plant and equipment of a subsidiary which is also a contractor to PETRONAS under certain PSCs; and
- the estimated costs of decommissioning and removing the assets and restoring the site on which they are located where there is an obligation to do so.

iii. Inventories

Title to all crude oil held in inventories by the PSC Contractors lies with PETRONAS and title to the contractors' entitlement passes only upon delivery at point of export.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

38. PETROLEUM ARRANGEMENTS (CONTINUED)

The monetisation of petroleum resources is also carried out by means of risk service contracts ("RSCs"). Under the terms of the RSCs, RSC Contractors provide services for the development and production of oil and gas resources on behalf of PETRONAS.

Certain terms of the RSCs are:

i. Cost reimbursement and remuneration fees

RSC Contractors incur all upfront costs and will be reimbursed upon first commercial production. Under the terms of the RSCs, PETRONAS owns the title to all equipment and other assets purchased or acquired by the RSC Contractors for the purpose of petroleum operations. The values of these assets are taken up in the financial statements of PETRONAS upon incurrence, together with the estimated costs of decommissioning the assets where there is an obligation to do so.

Contractors are also entitled to remuneration fees which commensurate with their performance under the contract. All payments of remuneration fees are recognised as expenditures in PETRONAS' financial statements.

ii. Production

All barrels of crude oil and gas produced belongs to PETRONAS and inventories, if any, are taken up in the financial statements of PETRONAS.

39. FINANCIAL INSTRUMENTS

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

i. Loans and receivables ("L&R")
ii. Fair value through profit or loss ("FVTPL")
 – Designated upon initial recognition ("DUIR")
 – Held for trading ("HFT")
iii. Available-for-sale financial assets ("AFS")
iv. Loans and borrowings ("L&B")
v. Held-to-maturity investments ("HTM")

39. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

Group *In RM Mil*	Note	L&R/ (L&B)	FVTPL - DUIR	FVTPL - HFT	AFS	HTM	Total carrying amount
2015							
Financial assets							
Long term receivables	*	**13,547**	**–**	**1**	**–**	**–**	**13,548**
Fund and other investments	12	**1,421**	**4,089**	**–**	**3,561**	**6,885**	**15,956**
Trade and other receivables	*	**38,397**	**–**	**486**	**–**	**–**	**38,883**
Cash and cash equivalents	18	**120,731**	**–**	**–**	**–**	**–**	**120,731**
		174,096	**4,089**	**487**	**3,561**	**6,885**	**189,118**
Financial liabilities							
Borrowings	22	**(57,902)**	**–**	**–**	**–**	**–**	**(57,902)**
Other long term liabilities	*	**(2,316)**	**–**	**(1)**	**–**	**–**	**(2,317)**
Trade and other payables	*	**(49,849)**	**–**	**(1,027)**	**–**	**–**	**(50,876)**
		(110,067)	**–**	**(1,028)**	**–**	**–**	**(111,095)**
2014							
Financial assets							
Long term receivables	*	12,377	–	–	–	–	12,377
Fund and other investments	12	719	6,530	–	4,535	7,585	19,369
Trade and other receivables	*	39,635	–	489	–	–	40,124
Cash and cash equivalents	18	116,826	–	–	–	–	116,826
		169,557	6,530	489	4,535	7,585	188,696
Financial liabilities							
Borrowings	22	(36,834)	–	–	–	–	(36,834)
Other long term liabilities	*	(1,527)	–	–	–	–	(1,527)
Trade and other payables	*	(44,818)	–	(708)	–	–	(45,526)
		(83,179)	–	(708)	–	–	(83,887)

* These balances exclude non-financial instruments balances.

Certain fund and other investments have been designated upon initial recognition at fair value through profit or loss as management internally monitors these investments on fair value basis.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

Company *In RM Mil*	Note	L&R/ (L&B)	FVTPL - DUIR	FVTPL - HFT	AFS	HTM	Total carrying amount
2015							
Financial assets							
Long term receivables	*	**157,276**	**–**	**–**	**–**	**–**	**157,276**
Fund and other investments	12	**–**	**3,294**	**–**	**134**	**7,579**	**11,007**
Trade and other receivables	*	**16,328**	**–**	**3**	**–**	**–**	**16,331**
Cash and cash equivalents	18	**67,760**	**–**	**–**	**–**	**–**	**67,760**
		241,364	**3,294**	**3**	**134**	**7,579**	**252,374**
Financial liabilities							
Borrowings	22	**(40,533)**	**–**	**–**	**–**	**–**	**(40,533)**
Other long term liabilities	*	**(2,358)**	**–**	**–**	**–**	**–**	**(2,358)**
Trade and other payables	*	**(18,845)**	**–**	**(4)**	**–**	**–**	**(18,849)**
		(61,736)	**–**	**(4)**	**–**	**–**	**(61,740)**
2014							
Financial assets							
Long term receivables	*	123,741	–	–	–	–	123,741
Fund and other investments	12	–	5,709	–	726	8,590	15,025
Trade and other receivables	*	21,794	–	33	–	–	21,827
Cash and cash equivalents	18	55,443	–	–	–	–	55,443
		200,978	5,709	33	726	8,590	216,036
Financial liabilities							
Borrowings	22	(17,857)	–	–	–	–	(17,857)
Other long term liabilities	*	(1,579)	–	–	–	–	(1,579)
Trade and other payables	*	(21,232)	–	(21)	–	–	(21,253)
		(40,668)	–	(21)	–	–	(40,689)

* These balances exclude non-financial instruments balances.

Certain fund and other investments have been designated upon initial recognition at fair value through profit or loss as management internally monitors these investments on fair value basis.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management

As an integrated oil and gas company, the Group and the Company are exposed to various risks that are particular to its core business of upstream and downstream operations. These risks, which arise in the normal course of the Group's and of the Company's business, comprise credit risk, liquidity risk and market risk relating to interest rates, foreign currency exchange rates, equity prices and commodity prices.

The Group has policies and guidelines in place that sets the foundation for a consistent approach towards establishing an effective financial risk management across the PETRONAS Group.

Risk taking activities are undertaken within acceptable level of risk or risk appetite, whereby the risk appetite level reflects business considerations and capacity to assume such risks. The risk appetite is established at Board level, where relevant, based on defined methodology and translated into operational thresholds.

The Group and the Company's goal in risk management are to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, each business unit adopts appropriate measures to mitigate these risks in accordance with the business unit's view of the balance between risk and reward.

Credit risk

Credit risk is the potential exposure of the Group and of the Company to losses in the event of non-performance by counterparties. The Group and the Company's exposures to credit risk arise principally from their receivables from customers, fund and other investments and financial guarantees given to financial institutions for credit facilities granted to subsidiaries, joint ventures and associates. Credit risks are controlled by individual operating units in line with PETRONAS' policies and guidelines.

Receivables

The Group and the Company minimise credit risk by entering into contracts with highly credit rated counterparties. Potential counterparties are subject to credit assessment and approval prior to any transaction being concluded and existing counterparties are subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are prepared and presented to the management that cover the Group's overall credit exposure against limits and securities, exposure by segment and overall quality of the portfolio.

Depending on the types of transactions and counterparty creditworthiness, the Group and the Company further mitigate and limit risks related to credit by requiring collateral or other credit enhancements such as cash deposits, letter of credit and bank guarantees.

Exposure to losses increases with concentrations of credit risk which may exist when a number of counterparties are involved in similar activities or operate in the same industry sector or geographical area, which may result in their ability to meet contractual obligations being impacted by changes in economic, political or other conditions. The Group's principal customers with which it conducts business are located globally and there is no significant concentration of credit risk at reporting date.

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2015 (continued)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Receivables (continued)

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. The ageing of trade receivables net of impairment amount as at the end of the reporting period is analysed below:

	Group		Company	
In RM Mil	**2015**	**2014**	**2015**	**2014**
At net				
Current	**21,813**	24,713	**4,213**	2,765
Past due 1 to 30 days	**601**	1,585	**2**	320
Past due 31 to 60 days	**240**	315	**21**	42
Past due 61 to 90 days	**1,254**	196	**17**	8
Past due more than 90 days	**2,144**	1,305	**147**	121
	26,052	28,114	**4,400**	3,256
Representing:				
Trade receivables (note 16)	**29,285**	30,299	**4,674**	3,557
Less: Impairment losses (note 16)	**(3,233)**	(2,185)	**(274)**	(301)
	26,052	28,114	**4,400**	3,256

With respect to the Group's and the Company's trade receivables, there are no indications as of the reporting date that the debtors will not meet their payment obligations except for impairment losses recognised below.

The movements in the allowance for impairment losses of trade receivables during the year are as follows:

	Group		Company	
In RM Mil	**2015**	**2014**	**2015**	**2014**
Opening balance	**2,185**	4,067	**301**	1,225
Impairment losses/(reversals) recognised	**727**	(642)	**–**	–
Impairment written off/adjustments	**(81)**	(1,344)	**(27)**	(924)
Translation exchange difference	**402**	104	**–**	–
Closing balance	**3,233**	2,185	**274**	301

39. FINANCIAL INSTRUMENTS (CONTINUED)

Fund and other investments

The Group and the Company are also exposed to counterparty credit risk from financial institutions, government and corporate counterparties through fund and other investment activities comprising primarily money market placement and investments in bonds, and equities. These exposures are managed in accordance with existing policies and guidelines that define the parameters within which the investment activities shall be undertaken in order to achieve the Group's investment objective of preserving capital and generating optimal returns above appropriate benchmarks within allowable risk parameters.

Investments are only made with approved counterparties who met the appropriate rating and other relevant criteria, and within approved credit limits, as stipulated in the policies and guidelines. The treasury function is governed by a counterparty credit risk management framework.

As at the reporting date, the Group and the Company have invested 93% (2014: 94%) and 100% (2014: 99%) of the investments in domestic securities respectively.

The fund and other investments are unsecured, however, in view of the sound credit rating of counterparties, management does not expect any counterparty to fail to meet its obligation.

Financial guarantees

The Group and the Company provide unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries, associates and joint ventures ("Group entities"). The Group and the Company monitor on an ongoing basis, the results of the Group entities and repayments made by the Group entities.

The maximum exposure to credit risk for the Group and the Company amounted to RM986,332,000 (2014: RM455,378,000) and RM3,019,478,000 (2014: RM2,291,941,000) respectively, which represents the outstanding banking facilities of the Group entities as at reporting date. As at reporting date, there was no indication that any Group entities would default on repayment. The fair value of the financial guarantee recognised is disclosed in note 24.

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. In managing its liquidity risk, the Group maintains sufficient cash and liquid marketable assets. The Company's current credit rating enables it to access banking facilities in excess of current and immediate future requirements of the Group and of the Company. The Group's borrowing power is not limited by its Articles of Association. However, certain covenants included in agreements impose limited restrictions on some of the debt level of PETRONAS' subsidiaries.

Maturity analysis

The table below summarises the maturity profile of the Group's and of the Company's financial liabilities as at the reporting date based on undiscounted contractual payments:

NOTES TO THE FINANCIAL STATEMENTS

– 31 December 2015 (continued)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Group 2015 *In RM Mil*	Carrying amount	Contractual interest/ profit rates per annum %	Contractual cash flows	Within 1 year
Loans and borrowings				
Secured Term Loans				
USD floating rate loan	1,716	1.74	1,940	199
RM fixed rate loan	413	4.38	538	33
RM floating rate loan	157	3.96	179	33
Other fixed rate loan	51	6.17	62	4
Unsecured Term Loans				
USD fixed rate loan	254	1.63	260	38
USD floating rate loan	4,769	1.25	5,052	1,030
GBP floating rate loan	505	2.05	585	132
EURO floating rate loan	2,062	1.17	2,114	28
Other fixed rate loan	29	5.76	32	16
Other floating rate loan	81	10.64	83	7
Unsecured Notes and Bonds				
USD Notes	4,294	7.88	6,491	338
USD Guaranteed Notes	28,726	4.46	43,035	1,292
USD Bonds	2,147	7.63	3,914	164
Unsecured revolving credits				
RM revolving credits	377	3.67	383	383
GBP revolving credits	1,082	1.00	1,093	1,093
Other revolving credits	143	4.50	147	147
Unsecured bank overdrafts				
ZAR bank overdrafts	58	10.00	64	64
Other bank overdrafts	90	10.17	105	105
Secured Islamic financing facilities				
RM Islamic financing facilities	1,546	5.45	1,677	668
Unsecured Islamic financing facilities				
RM Islamic financing facilities	3,910	4.16	5,069	470
USD Islamic financing facilities	5,349	2.71	5,962	145
CNY Islamic financing facilities	143	10.85	201	9
Other long term liabilities	1,793	–	3,326	268
Trade and other payables	49,849	–	49,849	49,849
Fair value through profit or loss – held for trading				
Derivative liabilities	1,028	–	1,028	1,027
	110,572		133,189	57,542

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39. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Group 2015 *In RM Mil*	1-2 years	2-5 years	More than 5 years
Loans and borrowings			
Secured Term Loans			
USD floating rate loan	204	600	937
RM fixed rate loan	32	50	423
RM floating rate loan	30	84	32
Other fixed rate loan	14	38	6
Unsecured Term Loans			
USD fixed rate loan	11	211	–
USD floating rate loan	927	2,851	244
GBP floating rate loan	16	437	–
EURO floating rate loan	27	2,059	–
Other fixed rate loan	9	7	–
Other floating rate loan	30	46	–
Unsecured Notes and Bonds			
USD Notes	338	1,014	4,801
USD Guaranteed Notes	1,292	16,082	24,369
USD Bonds	164	491	3,095
Unsecured revolving credits			
RM revolving credits	–	–	–
GBP revolving credits	–	–	–
Other revolving credits	–	–	–
Unsecured bank overdrafts			
ZAR bank overdrafts	–	–	–
Other bank overdrafts	–	–	–
Secured Islamic financing facilities			
RM Islamic financing facilities	334	616	59
Unsecured Islamic financing facilities			
RM Islamic financing facilities	557	1,501	2,541
USD Islamic financing facilities	145	5,672	–
CNY Islamic financing facilities	9	26	157
Other long term liabilities	349	1,021	1,688
Trade and other payables	–	–	–
Fair value through profit or loss – held for trading			
Derivative liabilities	1	–	–
	4,489	32,806	38,352

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NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Group 2014 *In RM Mil*	**Carrying amount**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows**	**Within 1 year**
Loans and borrowings				
Secured Term Loans				
USD fixed rate loan	257	5.00	258	258
USD floating rate loan	738	1.34	833	71
RM fixed rate loan	371	4.44	385	351
RM floating rate loan	181	4.46	212	33
Other fixed rate loan	55	4.81	61	9
Other floating rate loan	6	7.00	6	1
Unsecured Term Loans				
USD floating rate loan	7,610	1.37	8,151	687
GBP floating rate loan	333	2.08	334	–
EURO floating rate loan	1,871	1.34	1,970	54
Other fixed rate loan	69	4.35	70	51
Other floating rate loan	125	8.94	140	87
Unsecured Notes and Bonds				
USD Notes	3,495	7.88	5,529	275
USD Guaranteed Notes	10,431	5.25	13,024	550
USD Bonds	3,931	7.69	5,608	2,423
Secured revolving credits				
CAD revolving credits	151	4.15	157	157
Unsecured revolving credits				
RM revolving credits	744	3.84	836	836
GBP revolving credits	1,235	2.00	1,260	1,260
Other revolving credits	200	3.85	208	208
Unsecured bank overdrafts				
EURO bank overdrafts	10	0.60	10	10
ZAR bank overdrafts	67	6.00	70	70
Other bank overdrafts	67	11.04	75	75
Secured Islamic financing facilities				
RM Islamic financing facilities	1,640	5.47	1,867	240
Unsecured Islamic financing facilities				
RM Islamic financing facilities	3,247	4.14	3,935	688
Other long term liabilities	1,075	–	2,961	269
Trade and other payables	44,818	–	44,818	44,818
Fair value through profit or loss – held for trading				
Derivative liabilities	708	–	708	708
	83,435		93,486	54,189

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39. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Group 2014 *In RM Mil*	**1-2 years**	**2-5 years**	**More than 5 years**
Loans and borrowings			
Secured Term Loans			
USD fixed rate loan	–	–	–
USD floating rate loan	127	382	253
RM fixed rate loan	13	21	–
RM floating rate loan	32	88	59
Other fixed rate loan	10	32	10
Other floating rate loan	5	–	–
Unsecured Term Loans			
USD floating rate loan	882	5,158	1,424
GBP floating rate loan	–	–	334
EURO floating rate loan	27	1,888	1
Other fixed rate loan	16	3	–
Other floating rate loan	20	32	1
Unsecured Notes and Bonds			
USD Notes	275	826	4,153
USD Guaranteed Notes	550	11,924	–
USD Bonds	133	400	2,652
Secured revolving credits			
CAD revolving credits	–	–	–
Unsecured revolving credits			
RM revolving credits	–	–	–
GBP revolving credits	–	–	–
Other revolving credits	–	–	–
Unsecured bank overdrafts			
EURO bank overdrafts	–	–	–
ZAR bank overdrafts	–	–	–
Other bank overdrafts	–	–	–
Secured Islamic financing facilities			
RM Islamic financing facilities	477	1,043	107
Unsecured Islamic financing facilities			
RM Islamic financing facilities	511	815	1,921
Other long term liabilities	269	808	1,615
Trade and other payables	–	–	–
Fair value through profit or loss – held for trading			
Derivative liabilities	–	–	–
	3,347	23,420	12,530

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NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Company *In RM Mil*	**Carrying amount**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows**	**Within 1 year**
2015				
Loans and borrowings				
Unsecured Notes and Bonds				
USD Notes	**4,294**	**7.88**	**6,491**	**338**
USD Guaranteed Notes	**28,726**	**4.46**	**43,035**	**1,292**
USD Bonds	**2,147**	**7.63**	**3,914**	**164**
Unsecured Islamic financing facilities				
USD Islamic financing facilities	**5,366**	**2.71**	**5,962**	**145**
Other long term liabilities	**1,793**	**–**	**3,326**	**268**
Trade and other payables	**18,845**	**–**	**18,845**	**18,845**
Fair value through profit or loss – held for trading				
Derivative liabilities	**4**	**–**	**4**	**4**
	61,175		**81,577**	**21,056**

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Company *In RM Mil*	**Carrying amount**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows**	**Within 1 year**
2014				
Loans and borrowings				
Unsecured Notes and Bonds				
USD Notes	3,495	7.88	5,529	275
USD Guaranteed Notes	10,431	5.25	13,024	550
USD Bonds	3,931	7.69	5,608	2,423
Other long term liabilities	1,075	–	2,961	269
Trade and other payables	21,232	–	21,232	21,232
Fair value through profit or loss – held for trading				
Derivative liabilities	21	–	21	21
	40,185		48,375	24,770

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39. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Company *In RM Mil*	**1-2 years**	**2-5 years**	**More than 5 years**
2015			
Loans and borrowings			
Unsecured Notes and Bonds			
USD Notes	**338**	**1,014**	**4,801**
USD Guaranteed Notes	**1,292**	**16,082**	**24,369**
USD Bonds	**164**	**491**	**3,095**
Unsecured Islamic financing facilities			
USD Islamic financing facilities	**145**	**5,672**	**–**
Other long term liabilities	**349**	**1,021**	**1,688**
Trade and other payables	**–**	**–**	**–**
Fair value through profit or loss – held for trading			
Derivative liabilities	**–**	**–**	**–**
	2,288	**24,280**	**33,953**

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Company *In RM Mil*	**1-2 years**	**2-5 years**	**More than 5 years**
2014			
Loans and borrowings			
Unsecured Notes and Bonds			
USD Notes	275	826	4,153
USD Guaranteed Notes	550	11,924	–
USD Bonds	133	400	2,652
Other long term liabilities	269	808	1,615
Trade and other payables	–	–	–
Fair value through profit or loss – held for trading			
Derivative liabilities	–	–	–
	1,227	13,958	8,420

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NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk

Market risk is the risk or uncertainty arising from change in market prices and their impact on the performance of the business. The market price changes that the Group and the Company is exposed to, includes interest rates, foreign currency exchange rates, commodity prices, equity prices and other indices that could adversely affect the value of the Group's and the Company's financial assets, liabilities or expected future cash flows.

Interest rate risk

The Group's and the Company's investments in fixed rate debt securities and fixed rate borrowings are exposed to a risk of change in their fair values due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short term receivables and payables are not significantly exposed to interest rate risk.

All interest rate exposures are monitored and managed proactively in line with PETRONAS' policies and guidelines. The Group enters into hedging transactions with respect to interest rate on certain long term borrowings and other debts where necessary and appropriate, in accordance with policies and guidelines.

The interest rate profile of the Group's and the Company's interest-bearing financial instruments based on carrying amount as at reporting date is as follows:

	Group		Company	
In RM Mil	2015	2014	2015	2014
Fixed rate instruments				
Financial assets	**128,731**	130,598	**204,559**	156,873
Financial liabilities	**(53,768)**	(32,456)	**(42,411)**	(18,958)
	74,963	98,142	**162,148**	137,915
Floating rate instruments				
Financial assets	**3,228**	2,150	**14,028**	25,983
Financial liabilities	**(4,134)**	(4,378)	**–**	–
	(906)	(2,228)	**14,028**	25,983

Since most of the Group's and the Company's financial assets and liabilities are fixed rate instruments measured at amortised cost, a change in interest rate is not expected to have material impact on the Group's and the Company's profit or loss.

Foreign exchange risk

The Group and the Company are exposed to varying levels of foreign exchange risk when they enter into transactions that are not denominated in the respective companies' functional currencies and when foreign currency monetary assets and liabilities are translated at the reporting date. The main underlying economic currencies of the Group's cash flows are Ringgit Malaysia and US Dollars.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange risk (continued)

The Group and the Company's foreign exchange management policy are to minimise economic and significant transactional exposures arising from currency movements. The Group coordinates the handling of foreign exchange risks centrally typically by matching receipts and payments for the same currency. For major capital projects, the Group performs assessment of potential foreign exchange risk exposure at the investment decision phase to determine the appropriate foreign exchange risk management strategy. Residual net positions are actively managed and monitored against prescribed policies and control procedures. When deemed necessary and appropriate, the Group will enter into derivative financial instruments to hedge and minimise its exposures to the foreign currency movements.

The Group's and the Company's significant exposure to foreign currency risk, based on carrying amounts as at the reporting date is as follows:

Group *In RM Mil*	2015	2014
Denominated in USD		
Financial assets		
Loan and advances to subsidiaries	**123,249**	84,902
Cash and cash equivalents	**37,603**	10,877
Trade and other receivables	**17,995**	17,535
Long term receivables	**–**	43
Fund and other investments	**73**	261
Other financial assets	**76**	11
	178,996	113,629
Financial liabilities		
Loan and advances from holding company	**(12,983)**	(9,713)
Borrowings	**(44,991)**	(19,603)
Trade and other payables	**(9,040)**	(8,432)
Other financial liabilities	**(20,304)**	(24,664)
	(87,318)	(62,412)
Net exposure	**91,678**	51,217
Denominated in MYR		
Financial assets		
Cash and cash equivalents	**19**	997
Trade and other receivables	**1,719**	941
	1,738	1,938
Financial liabilities		
Trade and other payables	**(3,116)**	(2,943)
	(3,116)	(2,943)
Net exposure	**(1,378)**	(1,005)

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange risk (continued)

Company *In RM Mil*	**2015**	**2014**
Denominated in USD		
Financial assets		
Loan and advances to subsidiaries	**120,017**	84,698
Cash and cash equivalents	**36,622**	10,200
Trade and other receivables	**5,167**	6,311
Fund and other investments	**–**	201
	161,806	101,410
Financial liabilities		
Cash and cash equivalents – Subsidiaries' cash with PETRONAS Integrated Financial Shared Service Centre	**(17,378)**	(23,028)
Borrowings	**(40,533)**	(17,857)
Trade and other payables	**(6,883)**	(5,271)
Other financial liabilities	**(2,316)**	(1,527)
	(67,110)	(47,683)
Net exposure	**94,696**	53,727

Sensitivity analysis for a given market variable provided in this note, discloses the effect on profit or loss and equity as at 31 December 2015 assuming that a reasonably possible change in the relevant market variable had occurred at 31 December 2015 and been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for equity and commodity prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgement and historical experience.

The sensitivity analysis is hypothetical and should not be considered to be predictive of future performance because the Group's actual exposure to market prices is constantly changing with changes in the Group's portfolio of among others, commodity, debt and foreign currency contracts. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a given market variable is calculated independently of any change in another assumption and mitigating actions that would be taken by the Group. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange risk (continued)

The following table demonstrates the indicative pre-tax effects on the profit or loss and equity of applying reasonably foreseeable market movements in the following currency exchange rates:

	Appreciation in foreign currency rate	**Group**		**Company**	
In RM Mil	**%**	**Equity**	**Profit or loss**	**Equity**	**Profit or loss**
2015					
USD	**10**	**7,615**	**1,737**	**–**	**9,470**
MYR	**10**	**–**	**(352)**	**–**	**–**
2014					
USD	5	3,273	(3,580)	–	2,686
MYR	5	–	(56)	–	–

A depreciation in foreign currency rate above would have had equal but opposite effect, on the basis that all other variables remain constant.

Equity price risk

Equity price risk arises from the Group's and the Company's investments in equity securities. Exposures to equity price risk are managed in accordance to Group's existing policies and guidelines. The Group and the Company monitors the equity investments on a portfolio basis and a performance benchmark is established for each investment portfolio giving consideration to portfolio objectives and return expectation. All buy and sell decisions are monitored by the Group Treasury Division.

The Group and the Company also hold equity investment for strategic purposes, that are classified as available-for-sale financial assets. Reports on the equity portfolio performance are submitted to the Group's and the Company's senior management on a regular basis.

The Group's and the Company's exposure to equity price risk based on carrying amounts as at the reporting date is as follows:

	Group		**Company**	
In RM Mil	**2015**	**2014**	**2015**	**2014**
Local equities	**641**	867	**58**	300
Foreign equities	**2,949**	3,262	**–**	–
	3,590	4,129	**58**	300

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Equity price risk (continued)

The following table demonstrates the indicative pre-tax effects on the profit or loss and equity of applying reasonably foreseeable market movements in the following equities:

In RM Mil	Increase in price based on average change in index rate %	Group Equity	Group Profit or loss	Company Equity	Company Profit or loss
2015					
Local equities	**15**	**20**	**76**	**9**	**–**
Foreign equities	**15 to 30**	**591**	**–**	**–**	**–**
2014					
Local equities	15	56	74	45	–
Foreign equities	15 to 20	489	–	–	–

A decrease in price based on average change in index rate above would have had equal but opposite effect, on the basis that all other variables remain constant.

Commodity price risk

The Group is exposed to changes in crude oil, gas and petroleum products prices which may affect the value of the Group's assets, liabilities or expected future cash flows. To mitigate these exposures from a business perspective, the Group enters into various financial instruments. In effecting these transactions, the Group operates within policies and procedures designed to ensure that risks are minimised. All financial instruments positions are marked-to-market by independent risk management department and reported to management for performance monitoring and risk management purposes on a daily basis.

Since the Group undertakes hedging using commodity derivatives for the majority of its transactions, a change in commodity price is not likely to result in a significant impact on the Group's and the Company's profit or loss and equity.

Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The following table analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Group 2015 *In RM Mil*	Fair value of financial instruments carried at fair value 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**
	3,904	**3,782**	**7,686**
Financial Liabilities			
Interest rate swaps	**–**	**(1)**	**(1)**
Commodity swaps	**–**	**(18)**	**(18)**
Forward foreign exchange contracts	**–**	**(761)**	**(761)**
Forward gas contracts	**(236)**	**–**	**(236)**
Forward oil price contracts	**(12)**	**–**	**(12)**
	(248)	**(780)**	**(1,028)**

Group 2015 *In RM Mil*	Fair value of financial instruments not carried at fair value Level 2	Level 3	Total	Carrying amount
Financial assets				
Unquoted securities	**–**	**799**	**799**	**799**
Corporate Private Debt Securities	**6,779**	**–**	**6,779**	**4,906**
Unquoted shares	**–**	**451**	**451**	**451**
Malaysian Government Securities	**1,964**	**–**	**1,964**	**1,979**
Islamic deposits with licensed financial institutions	**–**	**622**	**622**	**622**
Long term receivables	**–**	**2,521**	**2,521**	**2,425**
Finance lease receivables	**–**	**11,122**	**11,122**	**11,122**
	8,743	**15,515**	**24,258**	**22,304**
Financial liabilities				
Notes and Bonds	**(34,633)**	**–**	**(34,633)**	**(35,167)**
Term loans	**–**	**(10,037)**	**(10,037)**	**(10,037)**
Islamic financing facilities	**(5,286)**	**(5,585)**	**(10,871)**	**(10,948)**
Other long term liabilities	**–**	**(1,864)**	**(1,864)**	**(2,316)**
	(39,919)	**(17,486)**	**(57,405)**	**(58,468)**

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Group 2014 In RM Mil	Fair value of financial instruments carried at fair value Level 1	Level 2	Total
Financial Assets			
Quoted shares	4,105	24	4,129
Short term marketable securities	–	400	400
Quoted securities	27	597	624
Malaysian Government Securities	–	1,194	1,194
Corporate Private Debt Securities	–	4,246	4,246
Commodity swaps	–	197	197
Forward foreign exchange contracts	–	8	8
Forward gas contracts	221	–	221
Forward oil price contracts	63	–	63
	4,416	6,666	11,082
Financial Liabilities			
Commodity swaps	–	(4)	(4)
Forward foreign exchange contracts	–	(368)	(368)
Forward gas contracts	(129)	–	(129)
Forward oil price contracts	(207)	–	(207)
	(336)	(372)	(708)

Group 2014 In RM Mil	Fair value of financial instruments not carried at fair value Level 2	Level 3	Total	Carrying amount
Financial assets				
Unquoted securities	–	719	719	719
Corporate Private Debt Securities	7,573	–	7,573	5,502
Unquoted shares	–	472	472	472
Malaysian Government Securities	2,031	–	2,031	2,083
Long term receivables	–	2,458	2,458	2,698
Finance lease receivables	–	9,679	9,679	9,679
	9,604	13,328	22,932	21,153
Financial liabilities				
Notes and Bonds	(20,766)	–	(20,766)	(17,857)
Term loans	–	(11,846)	(11,846)	(11,616)
Islamic financing facilities	–	(4,778)	(4,778)	(4,887)
Other long term liabilities	–	(1,199)	(1,199)	(1,527)
	(20,766)	(17,823)	(38,589)	(35,887)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Company 2015 In RM Mil	Fair value of financial instruments carried at fair value Level 1	Level 2	Total
Financial Assets			
Quoted shares	**58**	**–**	**58**
Malaysian Government Securities	**–**	**3**	**3**
Corporate Private Debt Securities	**–**	**3,291**	**3,291**
Forward foreign exchange contracts	**–**	**3**	**3**
	58	**3,297**	**3,355**
Financial Liabilities			
Forward foreign exchange contracts	**–**	**(4)**	**(4)**

Company 2015 In RM Mil	Fair value of financial instruments not carried at fair value Level 2	Level 3	Total	Carrying amount
Financial assets				
Unquoted shares	**–**	**76**	**76**	**76**
Malaysian Government Securities	**1,944**	**–**	**1,944**	**1,959**
Corporate Private Debt Securities	**5,590**	**–**	**5,590**	**5,620**
Long term receivables	**–**	**157,370**	**157,370**	**157,276**
	7,534	**157,446**	**164,980**	**164,931**
Financial liabilities				
Notes and Bonds	**(34,633)**	**–**	**(34,633)**	**(35,167)**
Islamic financing facilities	**(5,286)**	**–**	**(5,286)**	**(5,366)**
Other long term liabilities	**(1,864)**	**–**	**(1,864)**	**(2,358)**
	(41,783)	**–**	**(41,783)**	**(42,891)**

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Company 2014 *In RM Mil*	Fair value of financial instruments carried at fair value Level 1	Level 2	Total
Financial Assets			
Quoted shares	300	–	300
Short term marketable securities	–	350	350
Quoted securities	–	201	201
Malaysian Government Securities	–	1,194	1,194
Corporate Private Debt Securities	–	4,314	4,314
Forward foreign exchange contracts	–	33	33
	300	6,092	6,392
Financial Liabilities			
Forward foreign exchange contracts	–	(21)	(21)

Company 2014 *In RM Mil*	Fair value of financial instruments not carried at fair value Level 2	Level 3	Total	Carrying amount
Financial assets				
Unquoted shares	–	76	76	76
Malaysian Government Securities	2,011	–	2,011	2,063
Corporate Private Debt Securities	6,495	–	6,495	6,527
Long term receivables	–	127,996	127,996	123,741
	8,506	128,072	136,578	132,407
Financial liabilities				
Notes and Bonds	(20,766)	–	(20,766)	(17,857)
Other long term liabilities	–	(1,199)	(1,199)	(1,579)
	(20,766)	(1,199)	(21,965)	(19,436)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Derivatives

The calculation of fair value for derivative financial instruments depends on the type of instruments. The fair value of interest rate swap agreements are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The fair value of forward foreign currency exchange contracts is based on the fair value difference between forward exchange rates and the contracted rate. The fair value of commodity swap and commodity forward contracts is based on the fair value difference between market price at the date of measurement and the contracted price.

Non-derivative financial instruments

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

Income/(expense), net gains and losses arising from financial instruments

Group 2015 *In RM Mil*	Interest income	Interest expense	Impairment loss	Others	Total
Financial instruments at fair value through profit or loss					
– Held for trading	**–**	**–**	**–**	**(740)**	**(740)**
– Designated upon initial recognition	**229**	**–**	**–**	**(18)**	**211**
Held-to-maturity	**375**	**–**	**–**	**–**	**375**
Available-for-sale					
– recognised in profit or loss	**30**	**–**	**(1,793)**	**215**	**(1,548)**
– recognised in equity	**–**	**–**	**1,782**	**(1,034)**	**748**
Loans and receivables					
– recognised in profit or loss	**4,687**	**–**	**(1,611)**	**7,180**	**10,256**
– recognised in equity	**–**	**–**	**–**	**14,169**	**14,169**
Financial liabilities at amortised cost	**–**	**(2,439)**	**–**	**(7,152)**	**(9,591)**
Total	**5,321**	**(2,439)**	**(1,622)**	**12,620**	**13,880**

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

39. FINANCIAL INSTRUMENTS (CONTINUED)

Income/(expense), net gains and losses arising from financial instruments (continued)

Group 2014 *In RM Mil*	**Interest income**	**Interest expense**	**Impairment loss**	**Others**	**Total**
Financial instruments at fair value through profit or loss					
– Held for trading	–	–	–	2	2
– Designated upon initial recognition	356	–	–	(7)	349
Held-to-maturity	409	–	–	–	409
Available-for-sale					
– recognised in profit or loss	–	–	(575)	563	(12)
– recognised in equity	–	–	575	(2,130)	(1,555)
Loans and receivables					
– recognised in profit or loss	4,062	–	242	(519)	3,785
– recognised in equity	–	–	–	4,549	4,549
Financial liabilities at amortised cost	–	(2,138)	–	(1,333)	(3,471)
Total	4,827	(2,138)	242	1,125	4,056

Company 2015 *In RM Mil*	**Interest income**	**Interest expense**	**Impairment loss**	**Others**	**Total**
Financial instruments at fair value through profit or loss					
– Designated upon initial recognition	**177**	**–**	**–**	**–**	**177**
Held-to-maturity	**326**	**–**	**–**	**–**	**326**
Available-for-sale					
– recognised in profit or loss	**–**	**–**	**–**	**222**	**222**
– recognised in equity	**–**	**–**	**–**	**(147)**	**(147)**
Loans and receivables	**8,184**	**–**	**223**	**22,976**	**31,383**
Financial liabilities at amortised cost	**–**	**(1,947)**	**–**	**(6,914)**	**(8,861)**
Total	**8,687**	**(1,947)**	**223**	**16,137**	**23,100**

39. FINANCIAL INSTRUMENTS (CONTINUED)

Income/(expense), net gains and losses arising from financial instruments (continued)

Company 2014 *In RM Mil*	**Interest income**	**Interest expense**	**Impairment loss**	**Others**	**Total**
Financial instruments at fair value through profit or loss					
– Designated upon initial recognition	279	–	–	11	290
Held-to-maturity	367	–	–	–	367
Available-for-sale					
– recognised in profit or loss	–	–	–	27	27
– recognised in equity	–	–	–	53	53
Loans and receivables	6,562	–	–	4,419	10,981
Financial liabilities at amortised cost	–	(1,418)	–	(965)	(2,383)
Total	7,208	(1,418)	–	3,545	9,335

Others relate to gains and losses arising from financial instruments other than interest income, interest expense and impairment loss such as realised and unrealised foreign exchange gains or losses, dividend income and fair value gains or losses.

40. CAPITAL MANAGEMENT

The Group, as an essential part of its capital management strategy, is committed to a policy of financial prudence as outlined in the PETRONAS Group Corporate Financial Policy. The Group's capital structure consists of consolidated equity plus debt, defined as the current and long term portions of the Group's debt.

The objective of the Group's capital management is to maintain an optimal capital structure and ensure availability of funds in order to meet financial obligations, support business growth and maximise shareholders' value. The Group monitors and maintains a prudent level of total debt to total assets ratio so as to enable compliance with all covenants.

There were no changes in the Group's approach to capital management during the year.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

41. AMENDMENTS TO MFRS AND PRONOUNCEMENTS ISSUED BY MASB

Adoption of pronouncements

As of 1 January 2015, the Group and the Company adopted the following pronouncements that have been issued by the MASB and are applicable as listed below:

Effective for annual periods beginning on or after 1 July 2014

Amendments to MFRS 3 *Business Combinations (Annual Improvements 2010 – 2012 Cycle and 2011 – 2013 Cycle)*
Amendments to MFRS 8 *Operating Segments (Annual Improvements 2010 – 2012 Cycle)*
Amendments to MFRS 13 *Fair Value Measurement (Annual Improvements 2011 – 2013 Cycle)*
Amendments to MFRS 119 *Employee Benefits – Defined Benefit Plans: Employee Contributions*
Amendments to MFRS 124 *Related Party Disclosures (Annual Improvements 2010 – 2012 Cycle)*
Amendments to MFRS 140 *Investment Property (Annual Improvements 2011 – 2013 Cycle)*

The initial application of the abovementioned pronouncements do not have any material impact to the financial statements of the Group and the Company.

Pronouncements yet in effect

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by the Group and the Company in these financial statements:

Effective for annual periods beginning on or after 1 January 2016

Amendments to MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012 – 2014 Cycle)*
Amendments to MFRS 7 *Financial Instruments: Disclosures (Annual Improvements 2012 – 2014 Cycle)*
Amendments to MFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*
Amendments to MFRS 101 *Presentation of Financial Statements: Disclosure Initiative*
Amendments to MFRS 116 *Property, Plant and Equipment: Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to MFRS 119 *Employee Benefits (Annual Improvements 2012 – 2014 Cycle)*
Amendments to MFRS 127 *Separate Financial Statements: Equity Method in Separate Financial Statements*
Amendments to MFRS 134 *Interim Financial Reporting (Annual Improvements 2012 – 2014 Cycle)*
Amendments to MFRS 138 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation*

Effective for annual periods beginning on or after 1 January 2018

MFRS 9 *Financial Instruments (2014)*
MFRS 15 *Revenue from Contracts with Customers*

Effective for a date yet to be confirmed

Amendments to MFRS 10 *Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to MFRS 128 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

41. AMENDMENTS TO MFRS AND PRONOUNCEMENTS ISSUED BY MASB (CONTINUED)

Pronouncements yet in effect (continued)

The Group and the Company are expected to adopt the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the abovementioned pronouncements are not expected to have any material impact to the financial statements of the Group and the Company except as mentioned below:

i. MFRS 9 *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting. The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

ii. MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111 *Construction Contracts*, MFRS 118 *Revenue*, IC Interpretation 13 *Customer Loyalty Programmes*, IC Interpretation 15 *Agreements for Construction of Real Estate*, IC Interpretation 18 *Transfers of Assets from Customers* and IC Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*. The Group is currently assessing the financial impact that may arise from the adoption of MFRS 15.

New pronouncements not applicable to the Group and the Company

The MASB has issued pronouncements which are not yet effective, but for which are not relevant to the operations of the Group and the Company and hence, no further disclosure is warranted.

Effective for annual periods beginning on or after 1 January 2016

Amendments to MFRS 10 *Consolidated Financial Statements – Investment Entities: Applying the Consolidation Exception*
Amendments to MFRS 12 *Disclosure of Interests in Other Entities – Investment Entities: Applying the Consolidation Exception*
MFRS 14 *Regulatory Deferral Accounts*
Amendments to MFRS 116 *Property, Plant and Equipment – Agriculture: Bearer Plants*
Amendments to MFRS 128 *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
Amendments to MFRS 141 *Agriculture – Agriculture: Bearer Plants*

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

42. KEY SUBSIDIARIES AND ACTIVITIES

		Effective Percentage Holding			
		2015 %	2014 %	Country of Incorporation	Principal Activities
*	PETRONAS Carigali Sdn. Bhd.	**100**	100	Malaysia	Petroleum exploration, development and production
	PETRONAS Carigali Chad Exploration & Production Inc.	**100**	100	Cayman Islands	Investment holding
	PETRONAS Carigali (Chad EP) Inc.	**100**	100	Cayman Islands	Petroleum operations
	PETRONAS Chad Marketing Inc.	**100**	100	Cayman Islands	Trading of petroleum products
	PETRONAS Carigali Overseas Sdn. Bhd.	**100**	100	Malaysia	Investment holding and petroleum operations
	E&P Malaysia Venture Sdn. Bhd.	**100**	100	Malaysia	Petroleum operations
	PETRONAS Carigali Iraq Holding B.V.	**100**	100	Netherlands	Petroleum operations
œ*	PETRONAS International Corporation Ltd.	**100**	100	Malaysia	Investment holding
	PC JDA Limited	**100**	100	Republic of Mauritius	Petroleum operations
	PC Vietnam Limited	**100**	100	Republic of Mauritius	Petroleum operations
	PC (Myanmar) Holdings Limited	**100**	100	Hong Kong	Investment holding
	PC Myanmar (Hong Kong) Limited	**100**	100	Hong Kong	Petroleum operations
œ	PC Muriah Ltd.	**100**	100	Malaysia	Petroleum operations
	PETRONAS Australia Pty Limited	**100**	100	Australia	Investment holding
	PAPL (Upstream) Pty Limited	**100**	100	Australia	Exploration and production of coal seam gas
	PAPL (Downstream) Pty Limited	**100**	100	Australia	Production and transportation of liquefied natural gas for export
	PETRONAS Carigali (Jabung) Ltd.	**100**	100	Bahamas	Petroleum operations

42. KEY SUBSIDIARIES AND ACTIVITIES (CONTINUED)

		Effective Percentage Holding			
		2015 %	2014 %	Country of Incorporation	Principal Activities
	PETRONAS Carigali Myanmar Inc.	**100**	100	Liberia	Petroleum operations
	PETRONAS Carigali Nile Ltd.	**100**	100	Republic of Mauritius	Petroleum operations
	PETRONAS (E&P) Overseas Ventures Sdn. Bhd.	**100**	100	Malaysia	Investment holding
	Natuna 1 B.V.	**100**	100	Netherlands	Petroleum operations
	PETRONAS Carigali Canada B.V.	**100**	100	Netherlands	Investment holding
	Progress Energy Canada Ltd.	**100**	100	Canada	Petroleum and gas exploration, development and production
	PETRONAS Azerbaijan Upstream Sdn. Bhd.	**100**	100	Malaysia	Investment holding
	PETRONAS South Caucasus S.a.r.l.	**100**	100	Luxembourg	Investment holding
	PETRONAS Azerbaijan (Shah Deniz) S.a.r.l.	**100**	100	Luxembourg	Petroleum operations
	PETRONAS Carigali (Turkmenistan) Sdn. Bhd.	**100**	100	Malaysia	Petroleum operations
œ	PICL (Egypt) Corporation Ltd.	**100**	100	Malaysia	Investment holding, exploration and production of oil and gas
	PETRONAS Power Sdn. Bhd.	**100**	100	Malaysia	Investment holding
	Pengerang Power Sdn. Bhd.	**100**	100	Malaysia	Developing and operating a power generation plant and distribution of electricity and steam
	PETRONAS LNG Sdn. Bhd.	**100**	100	Malaysia	Investment holding
œ	PETRONAS LNG Ltd.	**100**	100	Malaysia	Trading of natural gas and LNG
	PETRONAS Energy Trading Limited	**100**	100	United Kingdom	Trading of natural gas and LNG
*	Malaysia LNG Sdn. Bhd.	**90**	90	Malaysia	Liquefaction and sale of LNG
*	Malaysia LNG Dua Sdn. Bhd.	**80**	60	Malaysia	Liquefaction and sale of LNG

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

42. KEY SUBSIDIARIES AND ACTIVITIES (CONTINUED)

	Effective Percentage Holding 2015 %	Effective Percentage Holding 2014 %	Country of Incorporation	Principal Activities
* Malaysia LNG Tiga Sdn. Bhd.	**60**	60	Malaysia	Liquefaction and sale of LNG
* PETRONAS LNG 9 Sdn. Bhd.	**100**	100	Malaysia	Selling, marketing and distribution of LNG
œ* PETRONAS Floating LNG 1 (L) Ltd.	**100**	100	Malaysia	Developing, constructing, owning, operating and maintaining an integrated floating natural gas liquefaction, storage and off loading facility
œ* PETRONAS Floating LNG 2 (L) Ltd.	**100**	100	Malaysia	Developing, constructing, owning, operating and maintaining an integrated floating natural gas liquefaction, storage and off loading facility
Engen Limited	**80**	80	South Africa	Refining of crude oil and marketing of refined petroleum products
PETRONAS Marketing Sudan Limited	**100**	100	Sudan	Marketing of petroleum products
œ MITCO Labuan Co. Limited	**100**	100	Malaysia	General merchandise trading
@* PETRONAS Dagangan Berhad	**69.9**	69.9	Malaysia	Domestic marketing of petroleum products
@* PETRONAS Gas Berhad	**60.6**	60.6	Malaysia	Processing and transmission of natural gas
Regas Terminal (Sg. Udang) Sdn. Bhd.	**60.6**	60.6	Malaysia	Manage and operate LNG regasification terminal
* PETRONAS Penapisan (Melaka) Sdn. Bhd.	**100**	100	Malaysia	Refining and condensation of crude oil
* Malaysian Refining Company Sdn. Bhd.	**100**	100	Malaysia	Refining and condensation of crude oil
* PETRONAS Penapisan (Terengganu) Sdn. Bhd.	**100**	100	Malaysia	Refining and condensation of crude oil

42. KEY SUBSIDIARIES AND ACTIVITIES (CONTINUED)

	Effective Percentage Holding 2015 %	Effective Percentage Holding 2014 %	Country of Incorporation	Principal Activities
* PETRONAS Trading Corporation Sdn. Bhd.	**100**	100	Malaysia	Marketing of crude oil and trading in crude oil and petroleum products and investment holding
œ PETCO Trading Labuan Company Ltd.	**100**	100	Malaysia	Marketing of crude oil and trading in crude oil and petroleum products
PETCO Trading (UK) Limited	**100**	100	United Kingdom	Marketing of crude oil and trading in crude oil and petroleum products
PETCO Trading DMCC	**100**	100	United Arab Emirates	Trading of petroleum products
@* PETRONAS Chemicals Group Berhad	**64.3**	64.3	Malaysia	Investment holding
PETRONAS Chemicals Aromatics Sdn. Bhd.	**45**	45	Malaysia	Production and sale of aromatics products
PETRONAS Chemicals Ammonia Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of ammonia, syngas and carbon monoxide
œ PETRONAS Chemicals Marketing (Labuan) Ltd.	**64.3**	64.3	Malaysia	Marketing of petrochemical products
PETRONAS Chemicals Fertiliser Kedah Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of urea, ammonia and methanol
PETRONAS Chemicals Glycols Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of ethylene oxide, ethylene glycol and other related by-products
PETRONAS Chemicals Marketing Sdn. Bhd.	**64.3**	64.3	Malaysia	Marketing of petrochemical products
PETRONAS Chemicals Methanol Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of methanol
PETRONAS Chemicals MTBE Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of methyl tertiary butyl ether and propylene

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

42. KEY SUBSIDIARIES AND ACTIVITIES (CONTINUED)

		Effective Percentage Holding 2015 %	Effective Percentage Holding 2014 %	Country of Incorporation	Principal Activities
	PETRONAS Chemicals Olefins Sdn. Bhd.	**56.6**	56.6	Malaysia	Production and sale of ethylene, propylene and other hydrocarbon by-products
	Asean Bintulu Fertilizer Sdn. Bhd.	**40.9**	40.9	Malaysia	Processing of natural gas into urea and ammonia
	PETRONAS Chemicals Derivatives Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of ethylene oxide derivatives, propylene derivatives and related chemical products
	PETRONAS Chemicals Polyethylene Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of polyethylene
	PETRONAS Chemicals Ethylene Sdn. Bhd.	**56.3**	56.3	Malaysia	Production and sale of ethylene
	PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of ammonia and urea
	PETRONAS Chemicals LDPE Sdn. Bhd.	**38.6**	38.6	Malaysia	Production and sale of low-density polyethylene pellets (LDPE)
*	PrimeSourcing International Sdn. Bhd.	**100**	100	Malaysia	Marketing and trading of steel, mechanical and electrical instrumentation, chemical and catalyst
*	PETRONAS Lubricants International Sdn. Bhd.	**100**	100	Malaysia	Investment holding, manufacturing and trading of lubricant products
	PLI (Netherlands) B.V.	**100**	100	Netherlands	Investment holding
	PETRONAS Lubricants Italy S.p.A	**100**	100	Italy	Manufacturing and marketing of lubricant products
	PETRONAS Lubrificantes Brasil S.A.	**100**	100	Brazil	Manufacturing and marketing of lubricant products
@*	MISC Berhad	**62.6**	62.6	Malaysia	Shipping and shipping related activities
	AET Tanker Holdings Sdn. Bhd.	**62.6**	62.6	Malaysia	Investment holding

42. KEY SUBSIDIARIES AND ACTIVITIES (CONTINUED)

		Effective Percentage Holding 2015 %	Effective Percentage Holding 2014 %	Country of Incorporation	Principal Activities
@	Malaysia Marine and Heavy Engineering Holdings Berhad	**41.6**	41.6	Malaysia	Investment holding
œ	Gas Asia Terminal (L) Pte. Ltd.	**62.6**	62.6	Malaysia	Development and ownership of LNG floating storage units
œ	MISC Capital (L) Ltd.	**62.6**	62.6	Malaysia	Special purpose vehicle for financing arrangement
œ	MISC Offshore Floating Terminals (L) Ltd.	**62.6**	62.6	Malaysia	Offshore floating terminals ownership
œ	Gumusut-Kakap Semi-Floating Production System (L) Limited	**81.3**	81.3	Malaysia	Owning and leasing of semi-submersible floating production system
	MISC Tankers Sdn. Bhd.	**62.6**	62.6	Malaysia	Investment holding and provision of management services
	MISC Tanker Holdings Sdn. Bhd.	**62.6**	62.6	Malaysia	Investment holding
	MISC Tanker Holdings (Bermuda) Limited	**62.6**	62.6	Bermuda	Investment holding
*	KLCC (Holdings) Sdn. Bhd.	**100**	100	Malaysia	Investment holding, property development management and provision of management services
	Kuala Lumpur Convention Centre Sdn. Bhd.	**100**	100	Malaysia	Property investment
	Putrajaya Holdings Sdn. Bhd.	**64.4**	64.4	Malaysia	Property development and investment
@	KLCC Property Holdings Berhad	**75.5**	75.5	Malaysia	Investment holding, property investment and provision of management services
@	KLCC Real Estate Investment Trust ("KLCC REIT")	**–**	–	Malaysia	To invest in a Shariah compliant portfolio of real estate assets and real estate related assets
	Suria KLCC Sdn. Bhd.	**45.5**	45.5	Malaysia	Property investment

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

42. KEY SUBSIDIARIES AND ACTIVITIES (CONTINUED)

	Effective Percentage Holding			
	2015 %	**2014 %**	**Country of Incorporation**	**Principal Activities**
Putrajaya Homes Sdn. Bhd.	**64.4**	64.4	Malaysia	General construction and property development
Putrajaya Ventures Sdn. Bhd.	**64.4**	64.4	Malaysia	Property development
* Institute of Technology PETRONAS Sdn. Bhd.	**100**	100	Malaysia	Institute of higher learning
œ* Energas Insurance (L) Limited	**100**	100	Malaysia	Offshore captive insurance business
œ* PETRONAS Capital Limited	**100**	100	Malaysia	Investment holding
œ PETRONAS Global Sukuk Limited	**100**	100	Malaysia	Investment holding
Petroleum Research Fund	**–**	–	Malaysia	Providing financial contributions to research activities relating to petroleum and other energy sources industry

The Group does not hold any ownership interest in KLCC Real Estate Investment Trust ("KLCC REIT"). However, the Group exercises power by virtue of its control over KLCC REIT Management Sdn. Bhd., the manager of KLCC REIT. KLCC REIT units are stapled to the ordinary shares of KLCC Property Holdings Berhad ("KLCCP") such that the shareholders of KLCCP are exposed to variable returns from its involvement with KLCC REIT and the Group has the ability to affect those returns through its power over KLCC REIT. Consequently, KLCC REIT is regarded as a subsidiary of the Group.

The Group does not hold any ownership interest in Petroleum Research Fund ("PRF"). However, the Group has the rights to appoint and remove members of Board of Trustees of PRF, which is the decision making body of the fund and has the absolute discretion to determine the manner in which balance of the fund should be distributed upon dissolution of PRF. Consequently, PRF is regarded as a subsidiary of the Group.

* Subsidiaries held directly by the Company.
@ The shares of these subsidiaries are quoted on the Main Market of Bursa Malaysia Securities Berhad.
œ Companies incorporated under the Labuan Companies Act 1990.

43. KEY ASSOCIATES AND ACTIVITIES

	Effective Percentage Holding			
	2015 %	**2014 %**	**Country of Incorporation**	**Principal Activities**
BASF PETRONAS Chemicals Sdn. Bhd.	**25.7**	25.7	Malaysia	Purchases propylene and n-butane feedstock from the Group for production, marketing and sale of acrylic, oxo and butanediol products
Bintulu Port Holdings Berhad	**28.5**	28.5	Malaysia	Port management
Cameroon Oil Transportation Company – S.A.	**29.8**	29.8	Republic of Cameroon	Pipeline operations
El Behera Natural Gas Liquefaction Company S.A.E.	**35.5**	35.5	Egypt	Manufacturing and production of LNG for the purpose of export
Gas Malaysia Berhad	**9.0**	9.0	Malaysia	Selling, marketing, distribution and promotion of natural gas
IDKU Natural Gas Liquefaction Company S.A.E.	**38.0**	38.0	Egypt	Manufacturing and production of LNG for the purpose of export
Pacific NorthWest LNG Ltd	**62.0**	62.0	Canada	Overall management and control of the business and affairs of LNG Partnership
Pacificlight Power Pte Ltd	**30.0**	30.0	Singapore	Own and operate power generation plant
Tchad Oil Transportation Company – S.A.	**30.2**	30.2	Republic of Chad	Pipeline operations
The Egyptian LNG Company S.A.E.	**35.5**	35.5	Egypt	Owning, managing and developing the land and the common facilities related to the Egyptian LNG facility
South Caucasus Pipeline Holding Company	**15.5**	–	Cayman Islands	Investment holding
South Caucasus Pipeline Company	**15.5**	–	Cayman Islands	Pipeline operations
Azerbaijan Gas Supply Company Ltd	**12.4**	–	Cayman Islands	Marketing and selling of natural gas

Although the Group has less than 20% of the ownership in the equity interest of Gas Malaysia Berhad, the Group has determined that it has significant influence over the financial and operating policy of the associate through representation on the said associate's board of directors.

Although the Group has 62% of the ownership in the equity interest of Pacific NorthWest LNG Ltd, the governing agreements and constitutive documents for this entity do not allow the Group to control this entity as voting requires unanimous approval of the shareholders or their representatives.

NOTES TO THE **FINANCIAL STATEMENTS**

– 31 December 2015 (continued)

44. KEY JOINT VENTURES AND ACTIVITIES

	Effective Percentage Holding			
	2015 %	2014 %	Country of Incorporation	Principal Activities
BP PETRONAS Acetyls Sdn. Bhd.	**19.3**	19.3	Malaysia	Manufacture, sell and distribute acetic acid
Dragon LNG Group Limited	**50.0**	50.0	United Kingdom	Operate LNG import and storage terminal
Trans Thai-Malaysia (Thailand) Ltd.	**50.0**	50.0	Thailand	Gas pipeline transportation and gas separation services
Trans Thai-Malaysia (Malaysia) Sdn. Bhd.	**50.0**	50.0	Malaysia	Transporting and delivering gas products
Indianoil PETRONAS Private Limited	**50.0**	50.0	India	Manufacture and bottling services of Liquid Petroleum Gas ("LPG")
VTTI B.V.	**–**	31.3	Netherlands	Owning, operating and managing a network of oil product storage terminals and refineries
Kimanis Power Sdn. Bhd.	**36.4**	36.4	Malaysia	Generation and sale of electricity
Taninthayi Pipeline Co. LLC	**40.9**	40.9	Cayman Islands	Transportation of gas
Malaysia Deepwater Floating Terminal (Kikeh) Ltd.	**31.8**	31.8	Malaysia	Floating production storage and off-loading ("FPSO") owner
Guangxi Nanning Yuchai Lube Co., Ltd.	**50.0**	38.4	China	Manufacturing and marketing of lubricant products
Guangxi Beihai Yuchai High Quality Lube Co., Ltd.	**50.0**	38.4	China	Manufacturing and marketing of lubricant products
Pengerang Terminals (Two) Sdn. Bhd.	**40.0**	40.0	Malaysia	Undertake activities related to terminal storage facilities for petroleum and petrochemical products

REPORT OF **THE AUDITORS TO THE MEMBERS**

Report on the Financial Statements

We have audited the financial statements of Petroliam Nasional Berhad, which comprise the statements of financial position as at 31 December 2015 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 165 to 286.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2015 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT OF **THE AUDITORS TO THE MEMBERS**

(continued)

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

b) We have considered the accounts and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Appendix I to the financial statements.

c) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

d) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

KPMG
Firm Number: AF 0758
Chartered Accountants

Datuk Johan Idris
Partner
Approval Number: 2585/10/16(J)
Chartered Accountant

Petaling Jaya, Malaysia
Date: 25 February 2016

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS

KLCC (Holdings) Sdn. Bhd. and its subsidiaries:

- Putrajaya Homes Sdn. Bhd.
- Hartamas Riang Sdn. Bhd.
- Convex Malaysia Sdn. Bhd.
- Gas District Cooling (M) Sdn. Bhd.
- Gilang Cendana Sdn. Bhd.
- Hasrat Intisari (M) Sdn. Bhd.
- Putrajaya Bina Sdn. Bhd.
- Midciti Sukuk Berhad
- Kenyalang Murni Sdn. Bhd.
- KLCC Projeks Sdn. Bhd.
- KLCC Real Estate Management Sdn. Bhd.
- KLCC Projeks Services Sdn. Bhd.
- Kuala Lumpur City Park Berhad
- Layar Intan Sdn. Bhd.
- Menara Putrajaya Sdn. Bhd.
- Purnama Sepi Sdn. Bhd.
- Putrajaya Development Sdn. Bhd.
- Putrajaya Group Sdn. Bhd.
- Putrajaya Projects Sdn. Bhd.
- Putrajaya Resources Sdn. Bhd.
- Senandung Asli Sdn. Bhd.
- Tapak Senja Sdn. Bhd.
- Gas District Cooling (KLIA) Sdn. Bhd.
- Antara Merdu Sdn. Bhd.
- Pelangi Maksima Sdn. Bhd.
- Arena Johan Sdn. Bhd.
- Asas Klasik Sdn. Bhd.
- KLCC Parking Management Sdn. Bhd.
- Kompleks Dayabumi Sdn. Bhd.
- Midciti Resources Sdn. Bhd.
- KLCC REIT Management Sdn. Bhd.
- Arah Moden Sdn. Bhd.
- City Centre Convention Centre Sdn. Bhd.
- Gagasan Ria Sdn. Bhd.
- Gas District Cooling (Putrajaya) Sdn. Bhd.
- Heritage Lane Sdn. Bhd.
- Ilham Merpati Sdn. Bhd.
- Idaman Putrajaya Sdn. Bhd.
- Impian Moden Sdn. Bhd.
- Kelana Perkasa Sdn. Bhd.
- KLCC Convention Centre Sdn. Bhd.
- KLCC Properties Sdn. Bhd.
- Komponen Abadi Sdn. Bhd.
- Kuala Lumpur City Centre Holdings Sdn. Bhd.
- Kuala Lumpur Convention Centre Sdn. Bhd.
- Lembah Putrajaya Sdn. Bhd.
- Metro Kemasik Sdn. Bhd.
- Pedoman Semarak Sdn. Bhd.
- Putrajaya Holdings Sdn. Bhd.
- Putrajaya Management Sdn. Bhd.
- Putrajaya Properties Sdn. Bhd.
- Putrajaya Ventures Sdn. Bhd.
- Serba Harapan (M) Sdn. Bhd.
- Gas District Cooling (Holdings) Sdn. Bhd.
- Gas District Cooling (UTP) Sdn. Bhd.
- Indah Putrajaya Sdn. Bhd.
- Suria KLCC Sdn. Bhd.
- Arena Merdu Sdn. Bhd.
- Impian Cemerlang Sdn. Bhd.
- KLCC Urusharta Sdn. Bhd.
- KLCC Property Holdings Bhd. (@)
- KLCC Real Estate Investment Trust (@)
- Quantum Panorama Sdn. Bhd.

Marmel Incorporated and its subsidiaries:

- Darton Ltd.
- GCB Associates, LLC
- Sparknight, LLC
- Paterson, LLC
- WG Parcel B, LLC
- Darton U.S. Holdings, Inc.
- Grabhorn Properties, LLC
- World Gateway Investments, Inc.
- World Gateway Property Owners Association

APPENDIX I

(continued)

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS (CONTINUED)

MISC Berhad and its subsidiaries:

- AET Agencies Inc.
- AET Inc. Limited
- AET Offshore Services Inc.
- AET Shipmanagement (India) Pte. Ltd.
- AET Shipmanagement (Singapore) Pte. Ltd.
- AET Tanker Holdings Sdn. Bhd.
- Asia LNG Transport Sdn. Bhd.
- Bunga Kasturi (L) Pte. Ltd.
- MISC Nigeria Ltd.
- Malaysian Maritime Academy Sdn. Bhd.
- MISC Offshore Floating Terminals Dua (L) Ltd.
- Misan Logistics B.V.
- MISC Agencies India Pvt. Ltd.
- MISC Agencies (Netherlands) B.V.
- MISC Agencies (U.K.) Ltd.
- MISC Capital (L) Ltd.
- MISC Ferry Services Sdn. Bhd.
- MISC Haulage Services Sdn. Bhd.
- MISC International (L) Ltd.
- MISC Offshore Holdings (Brazil) Sdn. Bhd.
- MISC Ship Management Sdn. Bhd.
- MISC Tanker Holdings (Bermuda) Limited
- MTTI Sdn. Bhd.
- Malaysia Marine and Heavy Engineering Holdings Berhad (@)
- Puteri Delima Satu (L) Pte. Ltd.
- Puteri Firus Satu (L) Pte. Ltd.
- Puteri Intan Satu (L) Pte. Ltd.
- Puteri Nilam Satu (L) Pte. Ltd.
- Puteri Zamrud Satu (L) Pte. Ltd.
- Puteri Zamrud Sdn. Bhd.
- Malaysia Marine and Heavy Engineering (Turkmenistan) Sdn. Bhd.
- AET Tankers Kazakhstan LLP
- AET Shipmanagement (USA) LLC
- AET Tankers (Suezmax) Pte. Ltd.
- AET Shuttle Tankers Sdn. Bhd.
- AET MCV Alpha L.L.C.
- AET MCV Gamma L.L.C.
- AET Brasil Servicos Maritamos Ltda
- AET MCV Beta Pte. Ltd.
- AET Holdings (L) Pte. Ltd.
- AET Lightering Services LLC
- AET Petroleum Tanker (M) Sdn. Bhd.
- AET Shipmanagement (Malaysia) Sdn. Bhd.
- AET Azerbaijan Limited
- AET Tankers India Pte. Ltd.
- AET UK Ltd.
- AET Tankers Pte. Ltd.
- Asia LNG Transport Dua Sdn. Bhd.
- FPSO Ventures Sdn. Bhd.
- Malaysia Marine and Heavy Engineering Sdn. Bhd.
- MILS Cold Chain Logistics Sdn. Bhd.
- MILS Cold Hub Sdn. Bhd.
- MISC Agencies Sdn. Bhd.
- MISC Agencies (Singapore) Pte. Ltd.
- MISC Enterprises Holdings Sdn. Bhd.
- MISC Offshore Mobile Production (Labuan) Ltd.
- MISC Integrated Logistics Sdn. Bhd.
- MISC Offshore Floating Terminals (L) Ltd.
- MISC Properties Sdn. Bhd.
- MISC Tanker Holdings Sdn. Bhd.
- MMHE-SHI LNG Sdn. Bhd.
- MISC Trucking and Warehousing Services Sdn. Bhd.
- Gas Asia Terminal (L) Private Ltd.
- MISC Tankers Sdn. Bhd.
- Puteri Delima Sdn. Bhd.
- Puteri Firus Sdn. Bhd.
- Puteri Intan Sdn. Bhd.
- Puteri Mutiara Satu (L) Pte. Ltd.
- Puteri Nilam Sdn. Bhd.
- Techno Indah Sdn. Bhd.
- MISC PNG Shipping Ltd.
- AET Sea Shuttle AS
- AET MCV Delta Sdn. Bhd.
- AET MCV Beta L.L.C.
- AET MCV Alpha Pte. Ltd.
- AET Brasil Servicos STS Ltda
- GK O & M (L) Limited
- MISC Agencies (Japan) Ltd.
- PETRONAS Maritime Services Sdn. Bhd.
- Sungai Udang Port Sdn. Bhd.

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS (CONTINUED)

PETRONAS Carigali Sdn. Bhd. and its subsidiaries:

- Doba Pipeline Investment Inc.
- PC Gulf Ltd.
- PC (SE Palung Aru) Ltd.
- PETRONAS Carigali (Australia) Pty. Ltd.
- PETRONAS Carigali (Chad EP) Inc.
- PETRONAS Carigali (Ketapang) Ltd.
- PETRONAS Carigali (Surumana) Ltd.
- E&P O&M Services Sdn. Bhd.
- PETRONAS Chad Marketing Inc.
- PC Algeria Ltd. (ϒ)
- PETRONAS Carigali Niger Exploration & Production Ltd.
- PETRONAS Carigali White Nile (5B) Ltd.
- PETRONAS Carigali Vietnam (Blocks 10 & 11-1) Ltd.
- PETRONAS Carigali (Mandar) Ltd.
- PETRONAS Carigali (Oman) Ltd.
- PETRONAS Iraq Garraf Ltd.
- PETRONAS Carigali Iraq (Halfaya) Ltd.
- PETRONAS Carigali Iraq Holding B.V.
- PETRONAS Carigali Iraq (Badra) Ltd.
- E&P Malaysia Venture Sdn. Bhd.
- PC Lampung II Ltd.
- PC Randugunting Ltd.
- PC (South Pars 11) Ltd.
- PC Venezuela Ltd.
- PETRONAS Carigali (Karapan) Ltd.
- PC Ketapang II Ltd.
- PETRONAS Carigali Chad Exploration & Production Inc.
- PETRONAS Carigali International Sdn. Bhd.
- PETRONAS Carigali Mozambique E&P Ltd.
- PETRONAS Carigali Nigeria Limited
- PETRONAS Carigali Overseas Sdn. Bhd.
- PC Mozambique (Rovuma Basin) Ltd.
- PETRONAS Carigali Cameroon Ltd.
- PETRONAS Carigali (Baisun) Ltd.
- PETRONAS Carigali (West Glagah Kambuna) Ltd.
- PETRONAS Carigali Iraq (Majnoon) Ltd.
- E&P Venture Solutions Co. Sdn. Bhd.
- Vestigo Petroleum Sdn. Bhd.

PETRONAS Chemicals Group Berhad's subsidiaries:

- Kertih Port Sdn. Bhd.
- PETRONAS Chemicals Ammonia Sdn. Bhd.
- PETRONAS Chemicals Glycols Sdn. Bhd.
- Vinyl Chloride (Malaysia) Sdn. Bhd.
- PETRONAS Chemicals LDPE Sdn. Bhd.
- PETRONAS Chemicals Fertiliser (Kedah) Sdn. Bhd.
- PETRONAS Chemicals Derivatives Sdn. Bhd.
- PETRONAS Chemicals Olefins Sdn. Bhd.
- PCM Chemical India Private Limited
- PCM (Thailand) Company Limited

PETRONAS Hartabina Sdn. Bhd. and its subsidiary:

- Prince Court Medical Centre Sdn. Bhd.

APPENDIX I
(continued)

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS (CONTINUED)

PETRONAS International Corporation Ltd. and its subsidiaries:

- Aktol Chemicals (Pty.) Ltd.
- Azania Petroleum (Pty.) Ltd.
- Citycat Properties (Pty.) Ltd.
- Chemico (Pty.) Ltd.
- Engen African Minority Holdings
- Engen Gabon S.A.
- Engen Group Funding Trust
- Engen Holdings (Ghana) Ltd.
- Engen International Holdings (Mauritius) Ltd.
- Engen Lesotho (Pty.) Ltd.
- Engen Marketing Botswana (Pty.) Ltd.
- Engen (Nigeria) Ltd. (ā)
- Engen Offshore Holdings (Mauritius) Ltd.
- Engen Swaziland (Pty.) Ltd.
- Engen Rwanda Ltd.
- Engen Petroleum Zimbabwe (PVT) Ltd.
- Engen Petroleum (Mocambique) Ltd.
- Engen Petroleum Zambia Ltd.
- Enpet Insurance Ltd.
- Federico Trading (Pty.) Ltd.
- Ivory Properties (Pty.) Ltd.
- Imtrasel (Pty.) Ltd.
- Labuan Energy Corporation Limited
- New Jack Trading (Pty.) Ltd.
- PAPL (Upstream) Pty Ltd.
- PC JDA Ltd.
- PC Muriah Ltd.
- PC Myanmar (Hong Kong) Limited
- PAPL Services Pty Limited
- PAPL (Upstream II) Pty Ltd.
- Petroleum Investment Holding Ltd.
- PETRONAS Energy Trading Limited
- PETRONAS Carigali Myanmar Inc.
- PETRONAS Carigali Nile Ltd.
- PETRONAS Carigali (Greenland) Holding Ltd.
- PETRONAS Carigali (Greenland) A/S
- PETRONAS Carigali Myanmar III Inc.
- PETRONAS Philippines Inc. (ā)(ϒ)
- PETRONAS Carigali (Urga) Ltd.
- PETRONAS Marketing Sudan Ltd.
- Argentinean Pipeline Holding Company S.A. (ā)(ϒ)
- PETRONAS Thailand Co. Ltd. (ā)
- PETRONAS International Power Corporation BV (ā)
- Japan Malaysia LNG Co. Ltd.
- PETRONAS LNG Ltd.
- BGI Properties Ltd.
- Cavallo Engineering & Construction (Pty.) Ltd.
- Durban Liquid Storage Pty. Ltd.
- Engen African Holdings
- Engen Botswana Limited (ß)
- Engen Ghana Ltd.
- Engen Holdings (Pty.) Ltd.
- Engen Holdings Zimbabwe (PVT) Ltd.
- Engen Kenya Ltd.
- Engen Limited
- Engen Marketing Ltd.
- Engen Marketing Zimbabwe Ltd.
- Engen Namibia (Pty.) Ltd.
- Engen Producing (Nigeria) Ltd. (ā)
- Oil Tanking Ltd.
- Engen Petroleum (Burundi) Ltd.
- Engen Petroleum (DRC) Ltd.
- Engen Petroleum Limited
- Engen Petroleum Tanzania Ltd.
- Enpet Africa Insurance Ltd.
- MITCO Labuan Co. Limited
- Myanmar PETRONAS Trading Co. Ltd.
- LEC Ireland Employment Ltd.
- Nada Properties Company Ltd.
- Natuna 1 B.V.
- Engen Petroleum (Mauritius) Ltd.
- Pakenzyl (Pty.) Ltd.
- Parsi International Ltd.
- PC Madura Ltd.
- PAPL (Downstream) Pty Ltd.
- PC (Myanmar) Holdings Limited (ϒ)
- PC Vietnam Ltd.
- Petrarch Petroleum (Pty.) Ltd.
- PETRONAS Australia Pty. Ltd.
- PETRONAS Carigali (Jabung) Ltd.
- PETRONAS Carigali (Turkmenistan) Sdn. Bhd.
- PETRONAS Carigali (Urga) Operating Company LLC (ϒ)
- Engen Reunion SA
- PETRONAS (E&P) Overseas Ventures Sdn. Bhd.
- PETRONAS Brasil E&P Limitada
- PETRONAS Sierra Leone E&P Ltd.
- Progress Energy Canada Ltd. (ā)
- Kabuye Depot Holding Company Rwanda Ltd.

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS (CONTINUED)

PETRONAS International Corporation Ltd. and its subsidiaries (continued):

- PICL Siri Company Limited (ā)
- PSE Kinsale Energy Limited
- Petal Petroleum Limited
- PC Mauritania I Pty Ltd. (ā)
- PC Mauritania II B.V. (ā)
- PETRONAS Carigali Brunei Co. Ltd.
- PETRONAS LNG Sdn. Bhd.
- PETRONAS LNG (UK) Limited
- Quickstep 285 (Pty.) Ltd.
- Renaissance Petroleum (Pty.) Ltd.
- SEP Burundi
- PETRONAS Marketing Ventures Limited
- Trek Petroleum (Pty.) Ltd.
- Zenex Oil (Pty.) Ltd.
- Engen Oil Lesotho (Pty.) Ltd.
- Engen DRC SARL
- Overseas Gas Storage Limited
- Humbly Grove Energy Services Ltd
- PETRONAS Carigali International E&P B.V.
- PICL (Egypt) Corporation Ltd.
- PSE Ireland Limited
- PSE Seven Head Limited
- Quickstep 284 (Pty.) Ltd.
- Quickstep 286 (Pty.) Ltd.
- Rockyhill Properties (Pty.) Ltd.
- Sirri International Ltd.
- Sonap Petroleum (South Africa) (Pty.) Ltd.
- Engen Ltd. (Malawi)
- Valais Investments (Pty.) Ltd.
- PETRONAS Carigali Canada B.V.
- PETRONAS Myanmar Limited
- Ximex Energy Holdings (PVT) Ltd.
- Societe de Transport Mace SA
- Engen Company (Mauritius) Ltd.
- Engen Properties (Pty.) Ltd.
- Engen Marketing Tanzania Ltd.
- Engen Oil Zimbabwe (PVT) Ltd.
- Gas Storage Limited
- Humbly Grove Energy Ltd.
- PETRONAS Suriname E&P B.V.
- PETRONAS Angola E&P Ltd.
- South African Oil Refinery (Pty.) Ltd.
- PETRONAS China Energy Ltd.
- PETRONAS Azerbaijan Upstream Sdn. Bhd.
- PETRONAS South Caucasus S.a.r.l
- PETRONAS Azerbaijan Shah Deniz S.a.r.l
- PETRONAS LNG Carriers Ltd.
- PETRONAS Power Sdn. Bhd.
- Voltage Renewables Sdn. Bhd.
- PETRONAS International Power Corporation (Mauritius) Ltd.
- Power & Energy Resources Sdn. Bhd.
- Pengerang Power Sdn. Bhd.
- PICL Marketing Thailand Ltd.
- PETRONAS E&P Argentina S.A.

PETRONAS Assets Sdn. Bhd. and its subsidiaries:

- PETRONAS ICT Sdn. Bhd.
- Virtus iP Sdn. Bhd.
- Petrofibre Network (M) Sdn. Bhd.

APPENDIX I

(continued)

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS (CONTINUED)

PETRONAS Lubricants International Sdn. Bhd.'s subsidiaries:

- PETRONAS Lubricants Italy S.p.a (ā)
- PETRONAS Lubrificantes Brasil S.A. (ā)
- PETRONAS Lubricants France S.a.s. (ā)
- PETRONAS Lubricants Netherlands B.V. (ā)
- PETRONAS Madeni Yaglar TIC LTD STI (ā)
- PETRONAS Lubricants Spain S.L.U. (ā)
- PETRONAS Lubricants Portugal Lda (ā)
- PETRONAS Lubricants China Company Limited (ā)
- PLI (Netherlands) B.V.
- Finco (UK) Ltd.
- PETRONAS Lubricants Africa Ltd. (ā)
- PETRONAS Marketing China Company Limited (ā)
- PETRONAS Lubricants Belgium N.V. (ā)
- Viscosity Oil Co.
- PETRONAS Lubricants Poland Sp. Zo.o (ā)
- PETRONAS Lubricants Argentina S.A.
- PETRONAS Lubricants Great Britain LTD (ā)
- PETRONAS Lubricants Deutschland Gmbh (ā)
- FL Nominees Ltd.
- PETRONAS Lubricants (India) Private Limited (ϒ)
- PETRONAS Lubricants Shandong Company Limited (ā)
- PL Russia LLC
- PLAL Egypt LLC
- PLI Australia Pty. Limited
- PL NA Mexico S de RL de CV (ā)
- PLAL DMCC (ā)
- PT PLI Indonesia

PETRONAS Trading Corporation Sdn. Bhd.'s subsidiaries:

- PETCO Trading (UK) Limited (ā)
- PT PETRONAS Niaga Indonesia
- PETCO Trading DMCC (ā)

PETRONAS Technical Services Sdn. Bhd.'s subsidiary:

- PTSSB JLT

Subsidiaries held directly by the Company:

- Energas Insurance (L) Limited
- PETRONAS Management Training Sdn. Bhd.
- PETRONAS South Africa (Pty.) Ltd. (ā)
- PETRONAS NGV Sdn. Bhd.
- Gumusut-Kakap Semi-Floating Production System (L) Ltd.
- Institute of Technology PETRONAS Sdn. Bhd.
- PETRONAS e-Learning Solutions Sdn. Bhd.
- PETRONAS Technical Training Sdn. Bhd.
- PETRONAS Capital Limited

ā Audited by affiliates of KPMG.
@ The shares of this subsidiary are quoted on the Main Market of Bursa Malaysia Securities Berhad.
ϒ Consolidated based on management financial statements.
ß The shares of this subsidiary are quoted on the Botswana Stock Exchange.