



PETRONAS

PETRONAS Group Interim Financial Report

For First Quarter 2016

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INTERIM FINANCIAL REPORT

FOR FIRST QUARTER 2016



Key Financial and Operational Highlights	Quarter ended	
	31.3.2016	31.3.2015
Revenue (RM mil)	49,126	66,191
Profit Before Taxation (RM mil)	6,778	16,951
Profit After Tax (RM mil)	4,567	11,400
Identified items* (RM mil)	(2,807)	(159)
Profit After Tax excluding identified items (RM mil)	7,374	11,559
EBITDA (RM mil)	15,605	21,943
Cash flows from operating activities (RM mil)	9,751	17,278
Capital investments (RM mil)	11,253	12,054
Crude oil, condensate and natural gas entitlement volume ('000 boe per day)	1,815	1,672

*mainly comprise net impairment on assets

- PETRONAS Group's revenue for the first quarter of 2016 decreased by 26%** compared to the same period in 2015 mainly due to lower average realised prices recorded across all products following the downward trend of key benchmark prices (Dated Brent and JCC) as well as impact of lower crude oil and condensate, processed gas and petroleum products sales volume. The decrease was partially offset by the effect of favourable US Dollar exchange rate movement against Ringgit.
- The Group recorded Profit Before Taxation ("PBT") of RM6.8 billion and Profit After Tax ("PAT") of RM4.6 billion for the current quarter, a decrease of 60% respectively,** mainly contributed by lower revenue recorded for the quarter partially offset by lower product and production costs and impact of favourable foreign exchange rate. **Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") however decreased by 29%** compared to the corresponding quarter last year primarily due to lower revenue recorded for the quarter.
- Cash flows from operating activities decreased by 44%** as compared to the corresponding quarter last year in line with lower revenue recorded for the quarter.
- Capital investments** in the first quarter of 2016 totalled **RM11.3 billion**, mainly attributable to Refinery and Petrochemical Integrated Development ("RAPID") project in Johor, domestic and international upstream capital expenditures mainly in Canada and Azerbaijan.
- Crude oil, condensate and natural gas entitlement volume in the first quarter of 2016 was 1,815 thousand boe per day** compared to 1,672 thousand boe per day in the same period last year. The increase was primarily due to higher entitlement volume in Iraq and new production stream from Indonesia. Total production volume in the first quarter of 2016 was 2,452 thousand boe per day compared to 2,395 thousand boe per day in the same period last year.

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The Board of Directors of Petroliaam Nasional Berhad ("PETRONAS" or the "Company") is pleased to announce the following unaudited condensed consolidated financial statements of PETRONAS Group for the first quarter ended 31 March 2016 which should be read in conjunction with the Explanatory Notes on pages 6 to 17.

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

<i>In RM Mil</i>	2016	Quarter ended 31 March 2015
Revenue	49,126	66,191
Cost of revenue	(37,810)	(44,185)
Gross profit	11,316	22,006
Selling and distribution expenses	(1,363)	(1,162)
Administration expenses	(2,050)	(2,216)
Net impairment losses ¹	(924)	(363)
Other expenses	(857)	(1,306)
Other income	1,227	528
Operating profit	7,349	17,487
Financing costs	(785)	(669)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	214	133
Profit before taxation	6,778	16,951
Tax expense	(2,211)	(5,551)
PROFIT FOR THE PERIOD	4,567	11,400
Other comprehensive (expenses)/income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Net movements from exchange differences	(15,181)	8,218
Available-for-sale financial assets		
- Changes in fair value	707	22
- Transfer to profit or loss	-	4
Others	(19)	-
Total other comprehensive (expenses)/income for the period	(14,493)	8,244
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE PERIOD	(9,926)	19,644
Profit attributable to:		
Shareholders of the Company	2,674	9,314
Non-controlling interests	1,893	2,086
PROFIT FOR THE PERIOD	4,567	11,400
Total comprehensive (expenses)/income attributable to:		
Shareholders of the Company	(10,172)	16,634
Non-controlling interests	246	3,010
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE PERIOD	(9,926)	19,644

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

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31.3.2016	As at 31.12.2015
<i>In RM Mil</i>		
ASSETS		
Property, plant and equipment	301,679	310,268
Investment properties, land held for development and prepaid lease payments	13,726	13,869
Investments in associates and joint ventures	13,599	13,018
Intangible assets	28,544	34,304
Fund and other investments	7,286	7,373
Other non-current assets	24,606	25,590
TOTAL NON-CURRENT ASSETS	389,440	404,422
Trade and other inventories	10,673	12,838
Trade and other receivables	43,758	44,979
Fund and other investments	7,565	8,583
Cash and cash equivalents	115,807	120,731
Other current assets	340	354
TOTAL CURRENT ASSETS	178,143	187,485
TOTAL ASSETS	567,583	591,907
EQUITY		
Share capital	100	100
Reserves	364,604	374,776
Total equity attributable to shareholders of the Company	364,704	374,876
Non-controlling interests	39,069	40,776
TOTAL EQUITY	403,773	415,652
LIABILITIES		
Borrowings	49,735	53,939
Deferred tax liabilities	13,991	14,526
Other long term liabilities and provisions	36,719	35,125
TOTAL NON-CURRENT LIABILITIES	100,445	103,590
Trade and other payables	55,521	65,219
Borrowings	4,059	3,963
Taxation	3,785	3,483
TOTAL CURRENT LIABILITIES	63,365	72,665
TOTAL LIABILITIES	163,810	176,255
TOTAL EQUITY AND LIABILITIES	567,583	591,907

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company			
	Non-distributable			Available-for-sale Reserve
	Share Capital	Capital Reserves	Foreign Currency Translation Reserve	
<i>In RM Mil</i>				
Quarter ended 31 March 2015				
Balance at 1 January 2015	100	13,622	14,250	(52)
Net movements from exchange differences	-	-	7,307	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	22
- Transfer to profit or loss	-	-	-	4
Other comprehensive (expenses)/income	-	(13)	-	-
Total other comprehensive (expenses)/income for the period	-	(13)	7,307	26
Profit for the period	-	-	-	-
Total comprehensive (expenses)/income for the period	-	(13)	7,307	26
Redemption of redeemable preference shares in a subsidiary	-	-	-	-
Dividends	-	-	-	-
Total transactions with shareholders	-	-	-	-
Balance at 31 March 2015	100	13,609	21,557	(26)
Quarter ended 31 March 2016				
Balance at 1 January 2016	100	13,904	41,293	695
Net movements from exchange differences	-	-	(13,546)	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	708
Other comprehensive (expenses)/income	-	(8)	-	-
Total other comprehensive (expenses)/income for the period	-	(8)	(13,546)	708
Profit for the period	-	-	-	-
Total comprehensive (expenses)/income for the period	-	(8)	(13,546)	708
Additional issuance of shares to non-controlling interests	-	-	-	-
Redemption of redeemable preference shares in a subsidiary	-	-	-	-
Dividends	-	-	-	-
Total transactions with shareholders	-	-	-	-
Balance at 31 March 2016	100	13,896	27,747	1,403

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

<i>In RM Mil</i>	<i>Attributable to shareholders of the Company</i>			<i>Non-controlling Interests</i>	<i>Total Equity</i>
	<i>Distributable</i>				
	<i>General Reserve</i>	<i>Retained Profits</i>	<i>Total</i>		
Quarter ended 31 March 2015					
Balance at 1 January 2015	12,000	314,748	354,668	37,261	391,929
Net movements from exchange differences	-	-	7,307	911	8,218
Available-for-sale financial assets:					
- Changes in fair value	-	-	22	-	22
- Transfer to profit or loss	-	-	4	-	4
Other comprehensive (expenses)/income	-	-	(13)	13	-
Total other comprehensive (expenses)/income for the period	-	-	7,320	924	8,244
Profit for the period	-	9,314	9,314	2,086	11,400
Total comprehensive (expenses)/income for the period	-	9,314	16,634	3,010	19,644
Redemption of redeemable preference shares in a subsidiary	-	-	-	(111)	(111)
Dividends	-	(4,000)	(4,000)	(2,772)	(6,772)
Total transactions with shareholders	-	(4,000)	(4,000)	(2,883)	(6,883)
Balance at 31 March 2015	12,000	320,062	367,302	37,388	404,690
Quarter ended 31 March 2016					
Balance at 1 January 2016	12,000	306,884	374,876	40,776	415,652
Net movements from exchange differences	-	-	(13,546)	(1,635)	(15,181)
Available-for-sale financial assets:					
- Changes in fair value	-	-	708	(1)	707
Other comprehensive (expenses)/income	-	-	(8)	(11)	(19)
Total other comprehensive (expenses)/income for the period	-	-	(12,846)	(1,647)	(14,493)
Profit for the period	-	2,674	2,674	1,893	4,567
Total comprehensive (expenses)/income for the period	-	2,674	(10,172)	246	(9,926)
Additional issuance of shares to non-controlling interests	-	-	-	13	13
Redemption of redeemable preference shares in a subsidiary	-	-	-	(11)	(11)
Dividends	-	-	-	(1,955)	(1,955)
Total transactions with shareholders	-	-	-	(1,953)	(1,953)
Balance at 31 March 2016	12,000	309,558	364,704	39,069	403,773

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	2016	Quarter ended 31 March 2015
<i>In RM Mil</i>		
Cash receipts from customers	49,343	65,407
Cash paid to suppliers and employees	(36,672)	(43,636)
	<u>12,671</u>	<u>21,771</u>
Interest income from fund and other investments	690	930
Interest expenses paid	(625)	(489)
Taxation paid	(2,985)	(4,934)
Cash flows from operating activities	<u>9,751</u>	<u>17,278</u>
Investment in securities and other investments	(230)	(510)
Proceeds from disposal of:		
- investment in an associate	4	-
- property, plant and equipment, investment properties, land held for development and assets classified as held for sale	136	263
- securities and other investments	1,533	1,237
Purchase of property, plant and equipment, investment properties, prepaid lease payments, and intangible assets	(11,253)	(12,054)
Investment in associates and a joint venture	(77)	(310)
Others	(285)	71
Cash flows from investing activities	<u>(10,172)</u>	<u>(11,303)</u>
Repayment of borrowings	(1,143)	(2,109)
Drawdown of borrowings	1,386	18,524
Dividends paid	-	(4,000)
Dividends paid to non-controlling interests	(1,700)	(2,766)
Payment to non-controlling interests on redemption of redeemable preference shares	(11)	(111)
Proceeds from shares issued to non-controlling interests	13	-
Cash flows from financing activities	<u>(1,455)</u>	<u>9,538</u>
Net (decrease)/increase in cash and cash equivalents	(1,876)	15,513
Decrease/(increase) in deposits restricted	310	(46)
Net foreign exchange differences	(2,987)	1,541
Cash and cash equivalents at beginning of the period	120,021	116,727
Cash and cash equivalents at end of the period	<u>115,468</u>	<u>133,735</u>
Cash and cash equivalents		
Cash and bank balances and deposits	115,807	133,832
Short term marketable securities	-	400
Bank overdrafts	(87)	(96)
Less: Deposits restricted	(252)	(401)
	<u>115,468</u>	<u>133,735</u>

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PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*. The results for this interim period are unaudited and should be read in conjunction with the Group's audited consolidated financial statements and the accompanying notes for the year ended 31 December 2015.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information presented herein has been prepared in accordance with the accounting policies to be used in preparing the annual consolidated financial statements for 31 December 2016 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2015 except as disclosed below.

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

Effective for annual periods beginning on or after 1 January 2016

- Amendments to MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations (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 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)*

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

3. AUDIT REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

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

4. SEASONALITY OR CYCLICALITY OF OPERATIONS

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

5. EXCEPTIONAL ITEMS

There was no exceptional item during the quarter under review.

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

6. DIVIDENDS

On 28th April 2016, the shareholders have approved 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, which is payable in eight instalments between April and November 2016. The interim financial report for the quarter does not reflect this dividend. The dividend will be accounted for in equity as an appropriation of retained profits in the interim financial report for the second quarter ending 30 June 2016.

7. CHANGES IN COMPOSITION OF THE GROUP

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

8. FAIR VALUE INFORMATION

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

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

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

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

8. FAIR VALUE INFORMATION (continued)

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

31 March 2016

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	3,938	17	3,955
Quoted securities	24	309	333
Malaysian Government Securities	-	3	3
Corporate Private Debt Securities	-	2,434	2,434
Commodity swaps	-	2	2
Forward foreign exchange contracts	-	173	173
Forward gas contracts	168	-	168
Forward oil price contracts	14	-	14
	<u>4,144</u>	<u>2,938</u>	<u>7,082</u>
Financial liabilities			
Interest rate swaps	-	(20)	(20)
Forward foreign exchange contracts	-	(377)	(377)
Commodity swaps	-	(14)	(14)
Forward gas contracts	(219)	-	(219)
Forward oil price contracts	(43)	-	(43)
	<u>(262)</u>	<u>(411)</u>	<u>(673)</u>

31 December 2015

In RM Mil

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

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

9. OPERATING SEGMENTS

The Group has two reportable operating segments comprising Upstream and Downstream. Corporate and Others comprises primarily logistic and maritime segment, property segment and central treasury function.

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

9.1 Revenue

	2016		2015		Quarter ended 31 March	
	Third Parties	Inter-segment	Gross Total	2016	2015	Gross Total
<i>In RM Mil</i>						
Upstream	24,472	35,131	4,798	5,854	29,270	40,985
Downstream	20,802	27,524	1,227	1,402	22,029	28,926
Corporate and Others	3,852	3,536	856	1,093	4,708	4,629
Total	49,126	66,191	6,881	8,349	56,007	74,540

9.2 Segment PAT

	Quarter ended 31 March	
	2016	2015
<i>In RM Mil</i>		
Upstream	2,271	7,871
Downstream	1,101	1,913
Corporate and Others	447	877
Total PAT for reportable segments	3,819	10,661
Elimination of inter-segment transactions	748	739
Consolidated PAT	4,567	11,400

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PART B – OTHER EXPLANATORY NOTES

10. REVIEW OF GROUP PERFORMANCE

<i>In RM Mil</i>	Quarter ended		
	31.3.2016	31.12.2015	31.3.2015
Revenue	49,126	60,098	66,191
Profit/(Loss) for the period	4,567	(2,958)	11,400
EBITDA ²	15,605	19,177	21,943

<i>In RM Mil</i>	As at	
	31.3.2016	31.12.2015
Total assets	567,583	591,907
Shareholders' equity	364,704	374,876
Gearing ratio ³	15.8%	16.0%
ROACE ⁴	3.5%	5.1%

PETRONAS Group recorded revenue of RM49.1 billion in the first quarter of 2016, a decrease of 26% compared to RM66.2 billion for the same period in 2015. Similarly, profit for the quarter decreased to RM4.6 billion from RM11.4 billion recorded in the corresponding quarter in 2015.

The decrease in current quarter revenue was mainly driven by lower average realised product prices following the prolonged downward trend of key benchmark prices (Dated Brent and JCC) coupled with the impact of lower crude oil and condensate, processed gas and petroleum products sales volume. This decrease was partially offset by the effect of favourable US Dollar exchange rate movement against Ringgit.

The Group recorded a lower profit of RM4.6 billion, a decrease of 60% as compared to the profit of the same period last year of RM11.4 billion. This was primarily due to lower prices across all products and higher net impairment on assets partially offset by lower product and production costs and impact of favourable foreign exchange rate. EBITDA for the quarter was RM15.6 billion, a reduction of 29% as compared to the same period in 2015.

Total assets decreased to RM567.6 billion as at 31 March 2016 as compared to RM591.9 billion as at 31 December 2015 primarily attributable to the impact of weakening US Dollar exchange rate against Ringgit. Shareholders' equity of RM364.7 billion as at 31 March 2016 decreased by RM10.2 billion compared to 31 December 2015 mainly due to the impact of weakening US Dollar exchange rate against Ringgit.

Gearing ratio decreased to 15.8% as at 31 March 2016 compared to 16.0% as at 31 December 2015 due to lower borrowings as a result of weakening US Dollar exchange rate against Ringgit. ROACE also decreased to 3.5% as at 31 March 2016 compared to 5.1% as at 31 December 2015 in line with lower profit for the period as compared to the same period in 2015.

² EBITDA consists of profit before taxation and non-controlling interests, with the addition of amounts previously deducted for depreciation, amortisation and net impairment loss on property, plant and equipment and intangible assets, and financing costs, and the exclusion of interest income.

³ Gearing ratio is calculated as adjusted total debt (total debt including provision for decommissioning of assets) divided by total equity and adjusted total debt.

⁴ Return on average capital employed (ROACE) is calculated as the annualised profit before interest expense after tax divided by average total equity and long term debt during the 12 months period.

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PART B – OTHER EXPLANATORY NOTES (continued)

11. REVIEW OF PERFORMANCE – UPSTREAM

Financial Indicators

In RM Mil

	31.3.2016	31.12.2015	Quarter ended 31.3.2015
Revenue			
Third party	24,472	30,316	35,131
Inter-segment	4,798	5,130	5,854
	<u>29,270</u>	<u>35,446</u>	<u>40,985</u>
PAT/(LAT) ⁵	2,271	(12,515)	7,871

Operational Indicators

	31.3.2016	31.12.2015	Quarter ended 31.3.2015
Production ⁶ ('000 boe ⁷ per day)			
Crude oil and condensate	1,010	934	975
Natural gas	1,442	1,392	1,420
	<u>2,452</u>	<u>2,326</u>	<u>2,395</u>
Oil and gas entitlement ⁸ ('000 boe per day)			
Crude oil and condensate	722	637	678
Natural gas	1,093	1,033	994
	<u>1,815</u>	<u>1,670</u>	<u>1,672</u>
Malaysia average sales gas volume (mmscfd) ⁹	2,722	2,596	2,633
LNG sales volume (million tonnes)	7.35	8.06	8.04

Revenue for the quarter was RM29.3 billion compared to RM41.0 billion in the corresponding quarter last year. Lower revenue was mainly contributed by lower prices for all products and lower LNG sales volume despite increase in oil and gas entitlement. PAT decreased to RM2.3 billion compared to RM7.9 billion in the corresponding quarter last year, mainly due to lower revenue as explained above coupled with higher net impairment on assets.

Total production volume for the quarter was 2,452 thousand boe per day compared to 2,395 thousand boe per day in the corresponding quarter last year mainly due to higher Iraq production entitlement, new production stream from Indonesia, offset by natural decline.

Total LNG sales volume for the quarter was lower by 0.69 million tonnes or 9% as compared to the corresponding quarter in 2015 mainly attributable to lower production from PETRONAS LNG Complex ("PLC") in Bintulu, Sarawak. Malaysia average sales gas volume increased by 89 mmscfd compared to the corresponding quarter last year mainly due to higher demand in East Malaysia.

⁵ LAT: Loss After Tax

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

⁷ boe: barrels of oil equivalent

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

⁹ mmscfd: million standard cubic feet per day

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PART B – OTHER EXPLANATORY NOTES (continued)

12. REVIEW OF PERFORMANCE – DOWNSTREAM

Financial Indicators

In RM Mil

Revenue

Third party

Inter-segment

PAT

	<u>31.3.2016</u>	<u>31.12.2015</u>	<u>Quarter ended</u> <u>31.3.2015</u>
	20,802	25,805	27,524
	1,227	1,426	1,402
	22,029	27,231	28,926
	1,101	1,645	1,913

Operational Indicators

Petroleum products sales volume (in million barrels)

Crude oil sales volume (in million barrels)

Petrochemicals sales volume (in million metric tonnes)

	<u>31.3.2016</u>	<u>31.12.2015</u>	<u>Quarter ended</u> <u>31.3.2015</u>
	69.0	68.3	72.4
	55.3	52.3	58.3
	1.7	1.6	1.6

Total revenue for the quarter was RM22.0 billion, a decrease of RM6.9 billion when compared to corresponding quarter last year. The decrease in the current quarter revenue was driven by significant downward trend in prices for crude oil, petroleum and petrochemical products.

Petroleum products and crude oil sales volume were lower in the current quarter by 3.4 million barrels and 3.0 million barrels respectively mainly due to lower trading volume because trading opportunities were limited.

Petrochemical products sales volume increased by 0.1 million compared to the corresponding quarter last year in line with higher production.

Downstream PAT of RM1.1 billion was lower than the corresponding quarter last year by RM0.8 billion mainly due to lower refining and marketing margins.

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PART B – OTHER EXPLANATORY NOTES (continued)

13. REVIEW OF PERFORMANCE – CORPORATE AND OTHERS

Financial Indicators

In RM Mil

Revenue

Third party

Inter-segment

PAT

	<u>31.3.2016</u>	<u>31.12.2015</u>	<u>Quarter ended</u> <u>31.3.2015</u>
	3,852	3,977	3,536
	856	1,013	1,093
	4,708	4,990	4,629
	447	7,089	877

Revenue for the quarter was RM4.7 billion, higher by RM0.1 billion or 2% as compared to the corresponding quarter last year mainly contributed by higher income from shipping business. PAT decreased by RM0.4 billion mainly attributable to higher net foreign exchange loss on fund and other investments due to the impact of weakening USD Dollar exchange rate against Ringgit and higher impairment on assets in the current quarter as compared to the same period last year.

14. COMPARISON WITH PRECEDING QUARTER'S RESULT

In RM Mil

Revenue

Profit/(Loss) for the period

EBITDA

	<u>31.3.2016</u>	<u>Quarter ended</u> <u>31.12.2015</u>
	49,126	60,098
	4,567	(2,958)
	15,605	19,177

PETRONAS Group's revenue of RM49.1 billion for the quarter was lower by RM11.0 billion or 18% as compared to the preceding quarter. The decrease was primarily driven by lower average realised prices for all major products partially offset by higher processed gas, petroleum products and crude oil and condensate sales volume.

Profit increased by RM7.5 billion as compared to the preceding quarter despite a decrease in revenue primarily due to lower net impairment on assets and lower product and production costs partially offset by lower product prices recorded in the current quarter. EBITDA for the quarter was RM15.6 billion, a 19% reduction as compared to the preceding quarter.

15. CURRENT FINANCIAL YEAR PROSPECTS

Concerns on moderate demand outlook and persistent oversupply will continue to pressure crude oil prices. The Board expects performance to be affected by the volatility of oil prices and foreign exchange rate. PETRONAS will continue with its cost rationalisation efforts to remain competitive.

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PART B – OTHER EXPLANATORY NOTES (continued)

16. TAXATION

<i>In RM Mil</i>	2016	Quarter ended 31 March 2015
Current tax expenses		
Malaysia	2,794	5,565
Overseas	144	176
Deferred tax expenses		
Origination and reversal of temporary differences	(727)	(190)
	<u>2,211</u>	<u>5,551</u>
Effective tax rate	32.6%	32.7%

The Group's effective tax rate for the current quarter of 32.6% was lower than the corresponding quarter of 32.7%, mainly due to lower non-deductible expenses coupled with higher non-assessable income in 2016.

17. CASH, FUND AND OTHER INVESTMENTS

<i>In %</i>	As at 31.3.2016	As at 31.12.2015
By Currency		
RM	63.7	60.9
USD	32.5	35.1
Others	3.8	4.0
	<u>100.0</u>	<u>100.0</u>
By Maturity¹⁰		
< 1 year	98.3	97.5
1 to 5 years	0.9	1.7
5 to 10 years	0.8	0.8
	<u>100.0</u>	<u>100.0</u>
By Type		
Money market	94.6	94.4
Corporate bonds	2.2	2.9
Equities	3.2	2.7
Government securities	-	-
	<u>100.0</u>	<u>100.0</u>

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

¹⁰ Refers to instrument maturity dates; excludes equities.

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PART B – OTHER EXPLANATORY NOTES (continued)

18. BORROWINGS

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

<i>In RM Mil</i>	As at 31.3.2016	As at 31.12.2015
Non-Current		
Secured		
Term loans	2,011	2,134
Islamic financing facilities	933	935
Total non-current secured borrowings	2,944	3,069
Unsecured		
Term loans	5,896	6,558
Notes and Bonds	32,217	35,167
Islamic financing facilities	8,678	9,145
Total non-current unsecured borrowings	46,791	50,870
Total non-current borrowings	49,735	53,939
Current		
Secured		
Term loans	187	203
Islamic financing facilities	331	611
Total current secured borrowings	518	814
Unsecured		
Term loans	1,192	1,142
Islamic financing facilities	284	257
Revolving credits	1,978	1,602
Bank overdrafts	87	148
Total current unsecured borrowings	3,541	3,149
Total current borrowings	4,059	3,963
Total borrowings	53,794	57,902

INTERIM FINANCIAL REPORT

FOR FIRST QUARTER 2016



PART B – OTHER EXPLANATORY NOTES (continued)

18. BORROWINGS (continued)

<i>In RM Mil</i>	As at		As at	
	31.3.2016	%	31.12.2015	%
By Currency				
USD	44,315	82.4	47,263	81.6
RM	6,092	11.3	6,404	11.1
EUR	1,973	3.7	2,068	3.6
GBP	929	1.7	1,587	2.7
Others	485	0.9	580	1.0
	53,794	100.0	57,902	100.0
By Repayment Schedule				
< 1 year	4,059	7.5	3,963	6.8
1 to 5 years	25,708	47.8	27,616	47.7
5 to 10 years	16,258	30.3	17,841	30.9
> 10 years	7,769	14.4	8,482	14.6
	53,794	100.0	57,902	100.0

19. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

20. MATERIAL LITIGATION

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

INTERIM FINANCIAL REPORT

FOR FIRST QUARTER 2016



PART B – OTHER EXPLANATORY NOTES (continued)

21. PROFIT FOR THE PERIOD

<i>In RM Mil</i>	<u>2016</u>	<u>Quarter ended 31 March 2015</u>
Included in profit for the period are the following charges:		
Depreciation and amortisation	5,726	5,796
Net impairment losses on:		
- receivables	-	244
- intangible assets	1,904	-
- property, plant and equipment	1,652	119
Net loss on derivatives	-	327
Net loss on foreign exchange	515	1,042
and credits:		
Dividend income	8	4
Gain on disposal of investments and property, plant and equipment	2	24
Interest income	1,240	1,387
Net gain on derivatives	4	-
Net write back of impairment losses on:		
- investments in associates	665	-
- intangible assets	-	205
- receivables	53	-
- other investments	10	-

22. DIVIDENDS

As disclosed in Note 6.

23. EXCHANGE RATES

US dollar/RM	<u>31.3.2016</u>	<u>31.12.2015</u>	<u>Quarter ended 31.3.2015</u>
Average rate	4.2029	4.2857	3.6181
Closing rate	3.9330	4.2940	3.7075

By order of the Board

Maliki Kamal Mohd Yasin (LS 0005209)
Company Secretary
Kuala Lumpur
18 May 2016