



PETRONAS

PETRONAS Group

Interim Financial Report

For First Quarter 2014

INTERIM FINANCIAL REPORT

FOR FIRST QUARTER 2014



Key Financial Highlights	Quarter ended	
	31.3.2014	31.3.2013
Revenue (RM mil)	84,049	76,676
Profit Before Taxation (RM mil)	27,207	28,830
Profit After Tax (RM mil)	18,755	20,372
EBITDA (RM mil)	34,631	34,358
Cash flows from operating activities (RM mil)	23,888	20,743
Capital investments (RM mil)	17,334	10,513
Key Operational Highlights		
Production of oil and gas ('000 boe per day)	2,262	2,156
Crude oil sales volume (million barrels)	45.1	45.6
Petroleum products sales volume (million barrels)	73.3	68.3
LNG sales volume (million tonnes)	7.63	7.21

- PETRONAS Group's revenue for the first quarter of 2014 increased by 10%** compared with the same period in 2013 mainly due to higher oil and gas production volume, higher petroleum products trading volume and higher processed gas sales volume, coupled with the effect of favourable US Dollar exchange rate movement against the Ringgit.
- Profit Before Taxation ("PBT") and Profit After Tax ("PAT") decreased by 6% and 8% respectively** compared with the corresponding quarter last year primarily due to higher operating expenses, namely depreciation, amortisation and impairment expenses.
- Excluding the effect of the higher depreciation, amortisation and impairment expenses during the quarter, **Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") increased by 1%** as compared to the same period in 2013.
- Cash flows from operating activities** for the three months ended 31 March 2014 was **RM23.9 billion**, compared to RM20.7 billion for the same period in 2013.
- Capital investments** in the first three months of 2014 totalled **RM17.3 billion**, compared to RM10.5 billion in the same period last year.
- Production of oil and gas** in the **first quarter of 2014 was 2,262 thousand boe per day** compared to 2,156 thousand boe per day in the corresponding quarter last year mainly due to production resumption in South Sudan, production enhancement efforts and new producing fields in Iraq.
- Petroleum products sales volume increased by 7%** compared with the same period in 2013, driven by higher trading activities on the back of stronger demand from customers.

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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 2014 which should be read in conjunction with the Explanatory Notes on pages 6 to 18.

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

	2014	Quarter ended 31 March 2013
<i>In RM Mil</i>		
Revenue	84,049	76,676
Cost of revenue	<u>(52,787)</u>	<u>(45,433)</u>
Gross profit	31,262	31,243
Selling and distribution expenses	(1,278)	(1,290)
Administration expenses ¹	(3,515)	(1,966)
Other expenses	(245)	(508)
Other income	<u>1,303</u>	<u>1,614</u>
Operating profit	27,527	29,093
Financing costs	(713)	(681)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	<u>393</u>	<u>418</u>
Profit before taxation	27,207	28,830
Tax expense	<u>(8,452)</u>	<u>(8,458)</u>
PROFIT FOR THE PERIOD	<u>18,755</u>	<u>20,372</u>
Other comprehensive (expenses)/ income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Net movements from exchange differences	(2,369)	133
Available-for-sale financial assets		
- Changes in fair value	(298)	(334)
- Transfer to profit or loss upon disposal	-	(49)
Others	<u>52</u>	<u>68</u>
Total other comprehensive expenses for the period	<u>(2,615)</u>	<u>(182)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>16,140</u>	<u>20,190</u>
Profit attributable to:		
Shareholders of the Company	16,168	17,559
Non-controlling interests	<u>2,587</u>	<u>2,813</u>
PROFIT FOR THE PERIOD	<u>18,755</u>	<u>20,372</u>
Total comprehensive income attributable to:		
Shareholders of the Company	13,695	17,355
Non-controlling interests	<u>2,445</u>	<u>2,835</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>16,140</u>	<u>20,190</u>

¹ Includes impairment losses on property, plant and equipment and receivables (Note 23).

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31.3.2014	As at 31.12.2013
<i>In RM Mil</i>		
ASSETS		
Property, plant and equipment	248,052	243,537
Investment properties, land held for development and prepaid lease payments	13,599	13,598
Investments in associates and joint ventures	12,386	12,075
Intangible assets	34,838	34,364
Fund and other investments	9,758	9,252
Other non-current assets	16,572	17,288
TOTAL NON-CURRENT ASSETS	335,205	330,114
Trade and other inventories	14,365	16,107
Trade and other receivables	48,726	50,425
Fund and other investments	12,700	14,534
Cash and cash equivalents	120,014	117,118
Other current assets	279	362
TOTAL CURRENT ASSETS	196,084	198,546
TOTAL ASSETS	531,289	528,660
EQUITY		
Share capital	100	100
Reserves	349,397	335,703
Total equity attributable to shareholders of the Company	349,497	335,803
Non-controlling interests	35,795	36,502
TOTAL EQUITY	385,292	372,305
LIABILITIES		
Borrowings	27,779	29,002
Deferred tax liabilities	12,268	11,483
Other long term liabilities and provisions	28,446	28,506
TOTAL NON-CURRENT LIABILITIES	68,493	68,991
Trade and other payables	58,920	64,790
Borrowings	12,792	12,844
Taxation	5,792	4,730
Dividend payable	-	5,000
TOTAL CURRENT LIABILITIES	77,504	87,364
TOTAL LIABILITIES	145,997	156,355
TOTAL EQUITY AND LIABILITIES	531,289	528,660

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Attributable to shareholders of the Company</i>			
	<i>Non-distributable</i>		<i>Foreign</i>	<i>Available-</i>
<i>In RM Mil</i>	<i>Share</i>	<i>Capital</i>	<i>Currency</i>	<i>for-sale</i>
	<i>Capital</i>	<i>Reserves</i>	<i>Translation</i>	<i>Reserve</i>
			<i>Reserve</i>	<i>Reserve</i>
Quarter ended 31 March 2013				
At 1 January 2013	100	13,518	(731)	2,521
Net movements from exchange differences	-	-	120	-
Available-for-sale financial assets				
- Changes in fair value	-	-	-	(339)
- Transfer to profit or loss upon disposal	-	-	-	(49)
Other comprehensive income	-	64	-	-
Total other comprehensive income/(expenses) for the period	-	64	120	(388)
Profit for the period	-	-	-	-
Total comprehensive income/ (expenses) for the period	-	64	120	(388)
Dividends	-	-	-	-
Other movements	-	14	-	-
Total transactions with shareholders	-	14	-	-
Balance at 31 March 2013	100	13,596	(611)	2,133
Quarter ended 31 March 2014				
At 1 January 2014	100	13,527	7,010	1,456
Net movements from exchange differences	-	-	(2,248)	-
Available-for-sale financial assets				
- Changes in fair value	-	-	-	(289)
- Transfer to profit or loss upon disposal	-	-	-	-
Other comprehensive income	-	64	-	-
Total other comprehensive income/(expenses) for the period	-	64	(2,248)	(289)
Profit for the period	-	-	-	-
Total comprehensive income/ (expenses) for the period	-	64	(2,248)	(289)
Dividends	-	-	-	-
Other movements	-	(1)	-	-
Total transactions with shareholders	-	(1)	-	-
Balance at 31 March 2014	100	13,590	4,762	1,167

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

<i>In RM Mil</i>	Attributable to shareholders of the Company			Non-controlling Interests	Total Equity
	Distributable				
	General Reserve	Retained Profits	Total		
Quarter ended 31 March 2013					
At 1 January 2013	12,000	279,563	306,971	32,001	338,972
Net movements from exchange differences	-	-	120	13	133
Available-for-sale financial assets					
- Changes in fair value	-	-	(339)	5	(334)
- Transfer to profit or loss upon disposal	-	-	(49)	-	(49)
Other comprehensive income	-	-	64	4	68
Total other comprehensive income/(expenses) for the period	-	-	(204)	22	(182)
Profit for the period	-	17,559	17,559	2,813	20,372
Total comprehensive income/ (expenses) for the period	-	17,559	17,355	2,835	20,190
Dividends	-	(27,000)	(27,000)	(1,122)	(28,122)
Other movements	-	-	14	33	47
Total transactions with shareholders	-	(27,000)	(26,986)	(1,089)	(28,075)
Balance at 31 March 2013	12,000	270,122	297,340	33,747	331,087
Quarter ended 31 March 2014					
At 1 January 2014	12,000	301,710	335,803	36,502	372,305
Net movements from exchange differences	-	-	(2,248)	(121)	(2,369)
Available-for-sale financial assets					
- Changes in fair value	-	-	(289)	(9)	(298)
- Transfer to profit or loss upon disposal	-	-	-	-	-
Other comprehensive income	-	-	64	(12)	52
Total other comprehensive income/(expenses) for the period	-	-	(2,473)	(142)	(2,615)
Profit for the period	-	16,168	16,168	2,587	18,755
Total comprehensive income/ (expenses) for the period	-	16,168	13,695	2,445	16,140
Dividends	-	-	-	(3,196)	(3,196)
Other movements	-	-	(1)	44	43
Total transactions with shareholders	-	-	(1)	(3,152)	(3,153)
Balance at 31 March 2014	12,000	317,878	349,497	35,795	385,292

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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>In RM Mil</i>	2014	Quarter ended 31 March 2013
Cash receipts from customers	85,072	76,807
Cash paid to suppliers and employees	<u>(54,609)</u>	<u>(48,848)</u>
	30,463	27,959
Interest income from fund and other investments	677	833
Interest expenses paid	(521)	(529)
Taxation paid	<u>(6,731)</u>	<u>(7,520)</u>
Cash flows from operating activities	<u>23,888</u>	<u>20,743</u>
Acquisition of interest in a joint operation, net of cash acquired	(4,442)	-
Investment in securities	(789)	(749)
Proceeds from disposal/partial disposal of:		
- property, plant and equipment, prepaid lease payments and intangible assets	3,401	465
- securities and other investment	1,613	2,014
Purchase of property, plant and equipment, prepaid lease payments and intangible assets	<u>(12,892)</u>	<u>(10,513)</u>
Others	134	101
Cash flows from investing activities	<u>(12,975)</u>	<u>(8,682)</u>
Repayment of borrowings	(1,712)	(4,561)
Drawdown of borrowings	596	2,763
Dividends paid	(5,000)	(343)
Dividends paid to non-controlling interests	(1,986)	(2,577)
Others	44	-
Cash flows from financing activities	<u>(8,058)</u>	<u>(4,718)</u>
Net increase in cash and cash equivalents	2,855	7,343
(Increase)/Decrease in deposits restricted	(4)	109
Net foreign exchange differences	(259)	253
Cash and cash equivalents at beginning of the period	<u>116,435</u>	<u>108,627</u>
Cash and cash equivalents at end of the period	<u>119,027</u>	<u>116,332</u>
Cash and cash equivalents		
Cash and bank balances and deposits	120,014	116,644
Short term marketable securities	85	1,619
Bank overdrafts	(685)	(1,349)
Less: Deposits restricted	<u>(387)</u>	<u>(582)</u>
	<u>119,027</u>	<u>116,332</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 2013.

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 2013.

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 2014 under the MFRS framework. These policies do not differ significantly from those used in the audited consolidated financial statements for 31 December 2013 except as disclosed below.

At the beginning of the current financial year, the Group and the Company have adopted Amendments to MFRSs, and IC Interpretations (collectively referred to as "pronouncements") that have been issued by the MASB as listed below:

Effective for annual periods beginning on or after 1 January 2014

Amendments to MFRS 10 Consolidated Financial Statements: Investment Entities

Amendments to MFRS 12 Disclosure of Interests in Other Entities: Investment Entities

Amendments to MFRS 127 Separate Financial Statements (2011): Investment Entities

Amendments to MFRS 136 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets

Amendments to MFRS 139 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting

IC Interpretation 21 Levies

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 2013.

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

During the quarter ended 31 March 2014, the Company paid a tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM50,000 per ordinary share amounting to RM5 billion in respect of the financial year ended 31 December 2013.

On 3 April 2014, the shareholders have approved a tax exempt final 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 2013, which is payable in eight installments between April and November 2014. The interim financial report for the current 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 second quarter ending 30 June 2014.

7. SIGNIFICANT AND SUBSEQUENT EVENTS

Sale of interest in Canadian Assets

In March 2014, the Group via its wholly-owned subsidiary Progress Energy Canada Ltd. ("PECL"), sold a 10 percent interest in North Montney Joint Venture British Columbia assets to IndOil Montney Ltd, a subsidiary of Indian Oil Corporation Ltd. Concurrently, in connection with the proposed Pacific NorthWest LNG export facility, the Group sold a 10 percent interest in Pacific NorthWest LNG Limited to IndOil Global B.V., another subsidiary of Indian Oil Corporation Ltd. A 10 percent interest in Pacific NorthWest LNG Limited Partnership ("PNWLNG LP") was also sold to IndOil Montney Ltd. As part of the transaction, IndOil Montney Ltd has agreed to offtake the liquefied natural gas facility's production equivalent to its pro-rata interest in the partnership for a period of 20 years.

During the quarter ended 31 March 2014, the Group has signed transaction agreements with China Petrochemical Corporation ("SINOPEC") where SINOPEC, through its affiliates, will acquire a 15 percent interest in PECL's North Montney Joint Venture British Columbia assets and in PNWLNG LP. The transaction is subject to relevant approvals.

Petroleum operations in the Republic of South Sudan

The Group's petroleum operations in the Republic of South Sudan ("RSS") consists of Block 1, 2 & 4, Block 3 & 7 and Block 5A. The petroleum operations in Block 1, 2 & 4 and Block 5A have been in shutdown mode since the end of last year due to adverse security situation in RSS. However, the petroleum operation in Block 3 & 7 continues under precautionary security measures taken. The Group continues to monitor the security situation in RSS.

8. CHANGES IN COMPOSITION OF THE GROUP

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

9. 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 fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

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

9. FAIR VALUE INFORMATION (continued)

There have been no transfers between Level 1 and Level 2 fair values during the current financial period and comparative period.

31 March 2014

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	5,659	-	5,659
Short term marketable securities	-	85	85
Quoted securities	25	554	579
Malaysian Government Securities	-	2,364	2,364
Corporate Private Debt Securities	-	4,352	4,352
Commodity swaps	-	6	6
Forward foreign exchange contracts	-	115	115
Forward gas contracts	162	-	162
Forward oil price contracts	6	-	6
	5,852	7,476	13,328
Financial liabilities			
Commodity swaps	-	(6)	(6)
Interest rate swaps	-	(4)	(4)
Forward foreign exchange contracts	-	(157)	(157)
Forward gas contracts	(92)	-	(92)
Forward oil price contracts	(10)	-	(10)
	(102)	(167)	(269)

31 December 2013

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	5,984	-	5,984
Short term marketable securities	-	233	233
Quoted securities	25	1,062	1,087
Malaysian Government Securities	-	3,231	3,231
Corporate Private Debt Securities	-	4,363	4,363
Forward foreign exchange contracts	-	115	115
Forward gas contracts	60	-	60
Forward oil price contracts	1	-	1
	6,070	9,004	15,074
Financial liabilities			
Commodity swaps	-	(25)	(25)
Interest rate swaps	-	(5)	(5)
Forward foreign exchange contracts	-	(380)	(380)
Forward gas contracts	(13)	-	(13)
Forward oil price contracts	(3)	-	(3)
	(16)	(410)	(426)

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

10. OPERATING SEGMENTS

The Group has four reportable operating segments comprising Exploration and Production, Gas and Power, Downstream and Corporate and Others. Corporate and Others segment comprises primarily maritime and logistics 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 Committee, believes that such information is the most relevant in evaluating the results of the segments.

The basis of measurement of segment performance have changed from the Group’s audited consolidated financial statements for the year ended 31 December 2013. Previously, segment performance was measured based on segment Net Operating Profit After Tax (“NOPAT”) which is derived from net profit after tax excluding financing cost, share of profits of associates and joint ventures and other non-operating income and expenses. Comparative information with regards to segment performance have been restated following the change accordingly.

10.1 Revenue

<i>In RM Mil</i>	2014		2013		Quarter ended 31 March	
	2014	2013	2014	2013	2014	2013
	Third Parties		Inter-segment		Gross Total	
Exploration and Production ²	15,749	13,922	18,411	16,315	34,160	30,237
Gas and Power	27,512	23,438	1,652	1,580	29,164	25,018
Downstream	37,205	36,071	549	495	37,754	36,566
Corporate and Others	3,583	3,245	1,339	1,170	4,922	4,415
Total	84,049	76,676	21,951	19,560	106,000	96,236

10.2 Segment PAT

<i>In RM Mil</i>	2014	Quarter ended 31 March 2013
Exploration and Production	10,603	12,135
Gas and Power	4,986	5,413
Downstream	1,440	2,048
Corporate and Others	1,080	516
Total PAT for reportable segments	18,109	20,112
Elimination of inter-segment transactions	646	260
Consolidated PAT	18,755	20,372

² Inter-segment includes deemed sales between Exploration and Production and Gas and Power segments.

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PART B – OTHER EXPLANATORY NOTES

11. REVIEW OF GROUP PERFORMANCE

<i>In RM Mil</i>	Quarter ended		
	31.3.2014	31.12.2013	31.3.2013
Revenue	84,049	84,807	76,676
Profit for the period	18,755	12,763	20,372
EBITDA ³	34,631	29,801	34,358

<i>In RM Mil</i>	As at	
	31.3.2014	31.12.2013
Total assets	531,289	528,660
Shareholders' equity	349,497	335,803
Gearing ratio ⁴	10.4%	11.1%
ROACE ⁵	16.5%	17.0%

PETRONAS Group recorded an increase in revenue to RM84.0 billion in the first quarter of 2014, compared with RM76.7 billion for the same period in 2013, while profit for the quarter slightly decreased to RM18.8 billion compared to the same period in 2013.

First quarter revenue benefited from higher petroleum products trading volume on the back of stronger demand from customers, higher processed gas sales volume driven by higher gas supply from the importation of LNG via the regasification terminal in Melaka, higher oil and gas production volume mainly due to production resumption in South Sudan and new producing fields from Iraq, coupled with the effect of favourable US Dollar exchange rate movement against the Ringgit.

Profit for the quarter decreased by RM1.6 billion, primarily due to higher operating expenses namely depreciation, amortisation and impairment expenses, negated by favourable US Dollar exchange rate movement against the Ringgit. Excluding the effect of the higher depreciation, amortisation and impairment expenses during the quarter, EBITDA slightly increased by RM0.3 billion as compared to the same period in 2013.

Total assets increased to RM531.3 billion as at 31 March 2014 as compared to RM528.7 billion as at 31 December 2013 primarily as a result of profits generated during the quarter. Shareholders' equity of RM349.5 billion as at 31 March 2014 increased by RM13.7 billion compared to that as at 31 December 2013 mainly due to the impact of profits generated during the period.

Gearing ratio decreased to 10.4% as at 31 March 2014 compared to 11.1% as at 31 December 2013 due to lower debt following net repayment of borrowings during the period. ROACE decreased to 16.5% as at 31 March 2014 compared to 17.0% as at 31 December 2013 in line with lower profit for the period as compared to the same period in 2013.

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

⁴ Gearing ratio is calculated as total debt divided by the total of shareholders' equity and debt as at period/year end.

⁵ Return on average capital employed (ROACE) is calculated as the annualised profit divided by average total equity and long term debt during the 12 months period.

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PART B – OTHER EXPLANATORY NOTES (continued)

12. REVIEW OF PERFORMANCE - EXPLORATION AND PRODUCTION

Financial Indicators			Quarter ended
<i>In RM Mil</i>	31.3.2014	31.12.2013	31.3.2013
Revenue			
Third party	15,749	15,263	13,922
Inter-segment	18,411	17,192	16,315
	<u>34,160</u>	<u>32,455</u>	<u>30,237</u>
PAT	10,603	7,021	12,135
Operational Indicators	31.3.2014	31.12.2013	Quarter ended
			31.3.2013
Production ⁶			
('000 boe ⁷ per day)			
Crude oil and condensates	847	819	743
Natural gas	1,415	1,394	1,413
	<u>2,262</u>	<u>2,213</u>	<u>2,156</u>
Oil and gas entitlement ⁸			
('000 boe ⁷ per day)			
Crude oil and condensates	578	592	529
Natural gas	1,247	1,152	1,137
	<u>1,825</u>	<u>1,744</u>	<u>1,666</u>

Revenue for the quarter ended 31 March 2014 was RM34.2 billion compared to RM30.2 billion in the corresponding quarter last year. Higher revenue was mainly contributed by higher entitlement volume for all products, in line with higher production. PAT was lower at RM10.6 billion in the current quarter compared to RM12.1 billion in the corresponding quarter last year mainly due to higher cost from higher exploration activities and impairment of assets in Egypt.

Total production for the quarter ended 31 March 2014 was higher at 2,262 thousand boe per day compared to 2,156 thousand boe per day in the corresponding quarter last year. Crude oil and condensate production was higher at 847 thousand boe per day as compared to 743 thousand boe per day mainly due to production resumption in South Sudan, production enhancement efforts and new producing fields from Iraq. Natural gas production was higher at 1,415 thousand boe per day compared to the corresponding quarter last year mainly due to new production stream from Malaysia's fields, better well performance, coupled with higher seasonal demand in Turkmenistan. However, the increase was negated by natural production decline rate in Egypt.

Overall entitlement for the quarter ended 31 March 2014 was higher than corresponding quarter last year by 159 thousand boe per day, in line with higher production as explained above.

⁶ Represents Malaysia's production 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.

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PART B – OTHER EXPLANATORY NOTES (continued)

13. REVIEW OF PERFORMANCE - GAS AND POWER

Financial Indicators

In RM Mil

	<u>31.3.2014</u>	<u>31.12.2013</u>	<u>Quarter ended 31.3.2013</u>
Revenue			
Third party	27,512	25,283	23,438
Inter-segment	1,652	1,532	1,580
	<u>29,164</u>	<u>26,815</u>	<u>25,018</u>
PAT	4,986	3,802	5,413

Operational Indicators

	<u>31.3.2014</u>	<u>31.12.2013</u>	<u>Quarter ended 31.3.2013</u>
Malaysia average sales gas volume (mmscfd) ⁹	2,882	2,812	2,711
LNG sales volume (million tonnes)	7.63	7.56	7.21

Gas and Power segment registered RM29.2 billion revenue for the quarter ended 31 March 2014, an increase of RM4.1 billion or 16.6% compared to the corresponding quarter in 2013 mainly due to higher LNG sales trading volume, favourable average sales gas volume, higher realised LNG prices and regulated gas prices.

The segment registered lower PAT at RM5.0 billion for the period, a decrease of RM0.4 billion compared to the corresponding quarter a year ago due to additional costs incurred for the purchase of LNG via the new Malaysia regasification terminal ("RGT") in Sungai Udang, Melaka, which was completed in second quarter of 2013.

Total LNG sales volume for the quarter was higher by 0.42 million tonnes or 5.8% as compared to the corresponding quarter in 2013 driven by higher trading volume and higher sales from PETRONAS LNG Complex ("PLC") in Bintulu, Sarawak.

Average sales gas volume was higher by 171 mmscfd or 6.3% compared to the corresponding period last year mainly due to higher domestic supply from Kertih, Terengganu and RGT.

⁹ mmscfd: million standard cubic feet per day

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PART B – OTHER EXPLANATORY NOTES (continued)

14. REVIEW OF PERFORMANCE – DOWNSTREAM

Financial Indicators

In RM Mil

	31.3.2014	31.12.2013	Quarter ended 31.3.2013
Revenue			
Third party	37,205	40,760	36,071
Inter-segment	549	528	495
	<u>37,754</u>	<u>41,288</u>	<u>36,566</u>
PAT	1,440	838	2,048

Operational Indicators

	31.3.2014	31.12.2013	Quarter ended 31.3.2013
Petroleum products sales volume (in million barrels)	73.3	79.8	68.3
Crude oil sales volume (in million barrels)	45.1	51.6	45.6
Petrochemicals sales volume (in million metric tonnes)	1.4	1.2	1.8

Revenue for the quarter was RM37.8 billion, an increase of RM1.2 billion compared to the corresponding period in 2013. The higher revenue was contributed by higher sales of petroleum products.

Petroleum products sales volume was 73.3 million barrels, higher than the corresponding period last year by 5.0 million barrels resulted from higher demand for gasoil as well as stronger naphtha demand from petrochemical sector.

Crude oil sales volume was slightly lower by 0.5 million barrels in comparison to the corresponding period last year mainly due to lower trading activities.

Petrochemical products sales volume was also lower by 0.4 million barrels compared to the corresponding period last year mainly due to lower plant production.

Downstream cumulative PAT was RM1.4 billion, lower than the corresponding period last year by RM0.6 billion mainly due to lower refining, trading and petrochemical products margins.

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PART B – OTHER EXPLANATORY NOTES (continued)

15. REVIEW OF PERFORMANCE - CORPORATE AND OTHERS

Financial Indicators

<i>In RM Mil</i>	31.3.2014	31.12.2013	Quarter ended 31.3.2013
Revenue			
Third party	3,583	3,501	3,245
Inter-segment	1,339	1,641	1,170
	<u>4,922</u>	<u>5,142</u>	<u>4,415</u>
PAT	1,080	670	516

Revenue for the quarter was RM4.9 billion, higher by 11.5% as compared to the corresponding quarter a year ago primarily attributable to higher income from property business and higher inter-segment sales due to provision of shipping services to related companies. PAT stood at RM1.1 billion, higher by RM0.6 billion in line with higher revenue, lower shipping costs and net gain on foreign exchange.

16. COMPARISON WITH PRECEDING QUARTER'S RESULT

<i>In RM Mil</i>	31.3.2014	Quarter ended 31.12.2013
Revenue	84,049	84,807
Profit for the period	18,755	12,763
EBITDA	34,631	29,801

PETRONAS Group's revenue of RM84.0 billion for the quarter was marginally lower by RM0.8 billion or 0.9% as compared to the preceding quarter. The decrease was primarily driven by lower crude oil and petroleum products trading volume resulting from limited trading opportunities, partially negated by the positive effect of favourable US Dollar exchange rate movement against the Ringgit.

Profit and EBITDA increased by RM6.0 billion and RM4.8 billion respectively as compared to the preceding quarter despite a decrease in revenue primarily due to lower impairment losses and operating expenses recorded in the current quarter.

17. CURRENT FINANCIAL YEAR PROSPECTS

The Board expects the overall year end performance of PETRONAS Group to be fair within the challenging business environment.

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PART B – OTHER EXPLANATORY NOTES (continued)

18. TAXATION

<i>In RM Mil</i>	2014	Quarter ended 31 March 2013
Current tax expenses		
Malaysia	8,433	8,191
Overseas	191	711
Deferred tax expenses		
Origination and reversal of temporary differences	(172)	(444)
	<u>8,452</u>	<u>8,458</u>
Effective tax rate	31.1%	29.3%

The Group's effective tax rate for the current quarter of 31.1% is higher than the corresponding quarter a year ago of 29.3% mainly due to higher non-deductible expenses recorded in the current quarter.

19. CASH, FUND AND OTHER INVESTMENTS

<i>In %</i>	As at 31.3.2014	As at 31.12.2013
By Currency		
RM	66.2	70.4
USD	27.3	24.7
Others	6.5	4.9
	<u>100.0</u>	<u>100.0</u>
By Maturity¹⁰		
< 1 year	94.8	93.9
1 to 5 years	4.1	4.8
5 to 10 years	1.1	1.3
	<u>100.0</u>	<u>100.0</u>
By Type		
Money market	89.9	88.6
Government securities	1.8	2.4
Corporate bonds	4.3	4.7
Equities	4.0	4.3
	<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)

20. BORROWINGS

The details of the Group borrowings as at 31 March 2014 are as follows:

<i>In RM Mil</i>	As at 31.3.2014	As at 31.12.2013
Non-Current		
Secured		
Term loans	1,522	1,700
Islamic financing facilities	1,425	1,427
Total non-current secured borrowings	2,947	3,127
Unsecured		
Term loans	5,735	5,988
Notes and Bonds	16,654	16,802
Islamic financing facilities	2,443	3,085
Total non-current unsecured borrowings	24,832	25,875
Total non-current borrowings	27,779	29,002
Current		
Secured		
Term loans	1,053	988
Islamic financing facilities	327	339
Total current secured borrowings	1,380	1,327
Unsecured		
Term loans	253	291
Notes and Bonds	2,281	2,301
Islamic financing facilities	6,746	5,816
Revolving credits	1,447	2,576
Bank overdrafts	685	533
Total current unsecured borrowings	11,412	11,517
Total current borrowings	12,792	12,844
Total borrowings	40,571	41,846

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FOR FIRST QUARTER 2014



PART B – OTHER EXPLANATORY NOTES (continued)

20. BORROWINGS (continued)

<i>In RM Mil</i>	As at		As at	
	31.3.2014	%	31.12.2013	%
By Currency				
USD	28,529	70.3	28,935	69.1
RM	7,848	19.3	8,191	19.6
EUR	1,844	4.6	2,144	5.1
ZAR	839	2.1	663	1.6
Others	1,511	3.7	1,913	4.6
	40,571	100.0	41,846	100.0
By Repayment Schedule				
< 1 year	12,792	31.5	12,844	30.7
1 to 5 years	11,361	28.0	12,057	28.8
5 to 10 years	14,788	36.5	15,299	36.6
10 to 20 years	1,630	4.0	1,646	3.9
	40,571	100.0	41,846	100.0

21. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 31 March 2014.

22. MATERIAL LITIGATION

There has been no new material litigation filed for and against the Company in the current quarter. 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 quarter-end. PETRONAS has been advised by its solicitors that there is no merit in the claim by the Kelantan State Government.

In 2012, certain individuals ("plaintiffs") filed a legal suit against PETRONAS and the State Government of Sabah wherein the plaintiffs are seeking a declaration that the agreement dated 14 June 1976 entered into between the State Government of Sabah and PETRONAS is ultra vires and null and void; and a declaration that the Petroleum Development Act of 1974 is also ultra vires and null and void. On 15 January 2014, the High Court of Sabah and Sarawak at Kota Kinabalu struck out the plaintiffs' suit with costs. The plaintiffs have not filed an appeal to the Court of Appeal, thus bringing the suit to an end.

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PART B – OTHER EXPLANATORY NOTES (continued)

23. PROFIT FOR THE PERIOD

<i>In RM Mil</i>	2014	Quarter ended 31 March 2013
Included in profit for the period are the following charges:		
Bad debt written off	122	1
Depreciation and amortisation	7,287	5,648
Impairment losses on:		
- receivables	339	-
- intangible assets	16	-
- property, plant and equipment	511	20
Net loss on derivatives	80	-
Net loss on foreign exchange	-	222
and credits:		
Dividend income	7	63
Gain on disposal of investments and property, plant and equipment	489	92
Interest income	1,103	821
Net gain on derivatives	-	3
Net gain on foreign exchange	126	-

24. DIVIDENDS

As disclosed in Note 6.

25. EXCHANGE RATES

US dollar/RM	31.3.2014	31.12.2013	Quarter ended 31.3.2013
Average rate	3.2977	3.2085	3.0810
Closing rate	3.2605	3.2900	3.0900

By order of the Board

Faridah Haris Hamid (LS 0008785)
Company Secretary
Kuala Lumpur
14 May 2014