



PETRONAS

PETRONAS Group

Interim Financial Report

For Third Quarter 2014

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INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



Cumulative quarter ended		Key Financial and Operational Highlights	Individual quarter ended	
30.9.2013	30.9.2014		30.9.2014	30.9.2013
232,507	249,781	Revenue (RM mil)	80,373	81,407
76,691	78,049	Profit Before Taxation (RM mil)	22,782	25,878
52,823	54,888	Profit After Tax (RM mil)	15,073	17,189
93,633	99,034	EBITDA (RM mil)	29,208	32,941
38,369	47,053	Capital investments (RM mil)	16,341	16,099
2,098	2,181	Crude oil, condensate and natural gas production volume ('000 boe per day)	2,078	2,064

Third quarter 2014

- **PETRONAS Group's revenue for the third quarter of 2014 decreased by 1%** compared with the same period in 2013 mainly due to lower average realised prices for most major products coupled with the effect of unfavourable US Dollar exchange rate movement against the Ringgit, partially offset by higher crude oil production mainly from Iraq and domestic fields.
- **Profit Before Taxation ("PBT"), Profit After Tax ("PAT") and Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") decreased by 12%, 12% and 11% respectively** compared with the corresponding quarter last year primarily due to lower revenue recorded and higher net loss on foreign exchange, partially offset by higher gain on disposal of property, plant and equipment in the current quarter.
- **Capital investments** in the third quarter of 2014 totalled **RM16.3 billion**, compared to RM16.1 billion in the same period last year.
- **Crude oil, condensate and natural gas production volume** in the **third quarter of 2014 was 2,078 thousand barrels of oil equivalent ("boe") per day** compared to 2,064 thousand boe per day in the corresponding quarter last year mainly contributed by higher crude oil production from Iraq and Malaysia.

Cumulative quarter ended 30 September 2014

- **PETRONAS Group's revenue for the nine months ended 30 September 2014 increased by 7%** compared with the same period in 2013 mainly driven by higher crude oil production volume from Iraq's new producing fields and South Sudan, as well as higher processed gas sales volume driven by higher gas supply from the importation of LNG via the regasification terminal ("RGT") in Melaka, coupled with the effect of favourable US Dollar exchange rate movement against the Ringgit.
- **Profit Before Taxation ("PBT"), Profit After Tax ("PAT") and Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") increased by 2%, 4% and 6% respectively** compared with the corresponding period in 2013 primarily contributed by higher revenue recorded and higher gain on disposal of property, plant and equipment for the period, partially negated by higher net depreciation and amortisation expense, as well as higher net impairment losses in the current period.
- **Capital investments** in the nine months ended 30 September 2014 was **RM47.1 billion**, compared with RM38.4 billion in the same period of 2013.
- **Crude oil, condensate and natural gas production volume** for the **nine months ended 30 September 2014 was 2,181 thousand boe per day** compared with 2,098 thousand boe per day in the same period last year mainly contributed by the new producing fields in Iraq, production resumption in South Sudan and additional production from Canada.

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



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 third quarter ended 30 September 2014 which should be read in conjunction with the Explanatory Notes on pages 6 to 19.

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

	Individual quarter ended		Cumulative quarter ended	
	2014	30 September 2013	2014	30 September 2013
<i>In RM Mil</i>				
Revenue	80,373	81,407	249,781	232,507
Cost of revenue	(52,834)	(51,786)	(159,331)	(145,367)
Gross profit	27,539	29,621	90,450	87,140
Selling and distribution expenses	(1,305)	(1,107)	(3,848)	(3,703)
Administration expenses ¹	(2,624)	(2,811)	(9,612)	(7,228)
Other expenses	(1,317)	(605)	(1,647)	(2,072)
Other income	863	1,103	3,854	3,583
Operating profit	23,156	26,201	79,197	77,720
Financing costs	(666)	(748)	(2,178)	(2,155)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	292	425	1,030	1,126
Profit before taxation	22,782	25,878	78,049	76,691
Tax expense	(7,709)	(8,689)	(23,161)	(23,868)
PROFIT FOR THE PERIOD	15,073	17,189	54,888	52,823
Other comprehensive income/(expenses)				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Net movements from exchange differences	2,533	4,217	(1,184)	7,742
Available-for-sale financial assets				
- Changes in fair value	(670)	286	(590)	(449)
- Transfer to profit or loss upon disposal	(124)	(66)	(149)	(130)
Others	(38)	(191)	39	(89)
Total other comprehensive income/(expenses) for the period	1,701	4,246	(1,884)	7,074
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	16,774	21,435	53,004	59,897
Profit attributable to:				
Shareholders of the Company	12,414	14,468	46,912	44,532
Non-controlling interests	2,659	2,721	7,976	8,291
PROFIT FOR THE PERIOD	15,073	17,189	54,888	52,823
Total comprehensive income attributable to:				
Shareholders of the Company	14,002	18,340	45,291	50,924
Non-controlling interests	2,772	3,095	7,713	8,973
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	16,774	21,435	53,004	59,897

¹ Includes impairment losses on property, plant and equipment and receivables (Note 22).

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30.9.2014	As at 31.12.2013
<i>In RM Mil</i>		
ASSETS		
Property, plant and equipment	265,947	243,537
Investment properties, land held for development and prepaid lease payments	13,550	13,598
Investments in associates and joint ventures	12,383	12,075
Intangible assets	30,433	34,364
Fund and other investments	9,509	9,252
Other non-current assets	16,543	17,288
TOTAL NON-CURRENT ASSETS	348,365	330,114
Trade and other inventories	14,832	16,107
Trade and other receivables	50,643	50,425
Fund and other investments	11,709	14,534
Cash and cash equivalents	119,409	117,118
Other current assets	168	362
TOTAL CURRENT ASSETS	196,761	198,546
TOTAL ASSETS	545,126	528,660
EQUITY		
Share capital	100	100
Reserves	357,329	335,703
Total equity attributable to shareholders of the Company	357,429	335,803
Non-controlling interests	35,149	36,502
TOTAL EQUITY	392,578	372,305
LIABILITIES		
Borrowings	29,894	29,002
Deferred tax liabilities	12,849	11,483
Other long term liabilities and provisions	31,815	28,506
TOTAL NON-CURRENT LIABILITIES	74,558	68,991
Trade and other payables	59,989	64,790
Borrowings	7,319	12,844
Taxation	4,682	4,730
Dividend payable	6,000	5,000
TOTAL CURRENT LIABILITIES	77,990	87,364
TOTAL LIABILITIES	152,548	156,355
TOTAL EQUITY AND LIABILITIES	545,126	528,660

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



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>				
Cumulative quarter ended 30 September 2013				
At 1 January 2013	100	13,518	(731)	2,521
Net movements from exchange differences	-	-	7,095	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	(440)
- Transfer to profit or loss upon disposal	-	-	-	(130)
Other comprehensive (expenses)/income	-	(133)	-	-
Total other comprehensive (expenses)/income for the period	-	(133)	7,095	(570)
Profit for the period	-	-	-	-
Total comprehensive (expenses)/income for the period	-	(133)	7,095	(570)
Additional equity interest in a subsidiary	-	-	-	-
Dividends	-	-	-	-
Other movements	-	31	-	-
Total transactions with shareholders	-	31	-	-
Balance at 30 September 2013	100	13,416	6,364	1,951
Cumulative quarter ended 30 September 2014				
At 1 January 2014	100	13,527	7,010	1,456
Net movements from exchange differences	-	-	(944)	-
Available-for-sale financial assets:				
- Changes in fair value	-	-	-	(570)
- Transfer to profit or loss upon disposal	-	-	-	(149)
Other comprehensive income/(expenses)	-	42	-	-
Total other comprehensive income/(expenses) for the period	-	42	(944)	(719)
Profit for the period	-	-	-	-
Total comprehensive income/(expenses) for the period	-	42	(944)	(719)
Dividends	-	-	-	-
Share of reserve of a joint venture	-	299	-	-
Other movements	-	36	-	-
Total transactions with shareholders	-	335	-	-
Balance at 30 September 2014	100	13,904	6,066	737

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to shareholders of the Company			Non-controlling Interests	Total Equity
	Distributable				
<i>In RM Mil</i>	General Reserve	Retained Profits	Total		
Cumulative quarter ended 30 September 2013					
At 1 January 2013	12,000	279,563	306,971	32,001	338,972
Net movements from exchange differences	-	-	7,095	647	7,742
Available-for-sale financial assets:					
- Changes in fair value	-	-	(440)	(9)	(449)
- Transfer to profit or loss upon disposal	-	-	(130)	-	(130)
Other comprehensive (expenses)/income	-	-	(133)	44	(89)
Total other comprehensive (expenses)/income for the period	-	-	6,392	682	7,074
Profit for the period	-	44,532	44,532	8,291	52,823
Total comprehensive (expenses)/income for the period	-	44,532	50,924	8,973	59,897
Additional equity interest in a subsidiary	-	(580)	(580)	580	-
Dividends	-	(27,000)	(27,000)	(5,904)	(32,904)
Other movements	-	-	31	29	60
Total transactions with shareholders	-	(27,580)	(27,549)	(5,295)	(32,844)
Balance at 30 September 2013	12,000	296,515	330,346	35,679	366,025
Cumulative quarter ended 30 September 2014					
At 1 January 2014	12,000	301,710	335,803	36,502	372,305
Net movements from exchange differences	-	-	(944)	(240)	(1,184)
Available-for-sale financial assets:					
- Changes in fair value	-	-	(570)	(20)	(590)
- Transfer to profit or loss upon disposal	-	-	(149)	-	(149)
Other comprehensive income/(expenses)	-	-	42	(3)	39
Total other comprehensive income/(expenses) for the period	-	-	(1,621)	(263)	(1,884)
Profit for the period	-	46,912	46,912	7,976	54,888
Total comprehensive income/(expenses) for the period	-	46,912	45,291	7,713	53,004
Dividends	-	(24,000)	(24,000)	(9,425)	(33,425)
Share of reserve of a joint venture	-	-	299	178	477
Other movements	-	-	36	181	217
Total transactions with shareholders	-	(24,000)	(23,665)	(9,066)	(32,731)
Balance at 30 September 2014	12,000	324,622	357,429	35,149	392,578

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Cumulative quarter ended	
	2014	30 September 2013
<i>In RM Mil</i>		
Cash receipts from customers	247,289	225,302
Cash paid to suppliers and employees	(149,362)	(138,447)
	97,927	86,855
Interest income from fund and other investments	2,411	3,035
Interest expenses paid	(1,592)	(1,581)
Taxation paid	(23,629)	(26,834)
Cash flows from operating activities	75,117	61,475
Acquisition of interest in a joint operation, net of cash acquired	(4,442)	-
Investment in securities	(1,978)	(2,726)
Proceeds from disposal/partial disposal of:		
- property, plant and equipment, prepaid lease payments and intangible assets	8,869	3,622
- securities and other investment	4,201	7,441
Purchase of property, plant and equipment, prepaid lease payments and intangible assets	(42,611)	(38,369)
Others	1,315	(98)
Cash flows from investing activities	(34,646)	(30,130)
Repayment of borrowings	(13,373)	(11,482)
Drawdown of borrowings	8,809	9,446
Dividends paid	(23,000)	(19,539)
Dividends paid to non-controlling interests	(10,955)	(6,997)
Others	171	28
Cash flows from financing activities	(38,348)	(28,544)
Net increase in cash and cash equivalents	2,123	2,801
Decrease in deposits restricted	92	80
Net foreign exchange differences	(118)	1,796
Cash and cash equivalents at beginning of the period	116,435	108,627
Cash and cash equivalents at end of the period	118,532	113,304
Cash and cash equivalents		
Cash and bank balances and deposits	119,409	113,760
Short term marketable securities	495	988
Bank overdrafts	(1,082)	(833)
Less: Deposits restricted	(290)	(611)
	118,532	113,304

INTERIM FINANCIAL REPORT FOR THIRD QUARTER 2014



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 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 other than that disclosed in the first quarter report relating to adoption of Amendments to MFRSs and IC Interpretations as of 1 January 2014.

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.

6. DIVIDENDS

During the period ended 30 September 2014:

- a) 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.
- b) the Company paid a dividend of RM16 billion, being first to sixth payment of the approved 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.
- c) the Company paid a tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM20,000 per ordinary share amounting to RM2 billion in respect of the financial year ending 31 December 2014.

The remaining amount of the tax exempt final dividend amounting to RM6 billion in respect of the financial year ended 31 December 2013 will be paid in instalments between October and November 2014.

INTERIM FINANCIAL REPORT FOR THIRD QUARTER 2014



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

7. SIGNIFICANT AND SUBSEQUENT EVENTS

Acquisition of interest in Statoil's Shah Deniz assets

On 13th October 2014, the Group via its wholly-owned subsidiaries, PETRONAS Azerbaijan Shah Deniz SARL and PETRONAS South Caucasus SARL entered into a Purchase and Sale Agreement with Statoil Shah Deniz A.S and Statoil Azerbaijan A.S to acquire 15.5% participating interest in Shah Deniz Exploration, Development and Production Sharing Agreement and South Caucasus Pipeline Company, which is subject to relevant approvals. The transaction is expected to be completed by early 2015.

PETRONAS acquires Phillips 66 interest in Malaysian Refining Company

On 11th November 2014, PETRONAS has reached an agreement with Phillips 66 Asia Limited, a subsidiary of Phillips 66, to acquire its 47% interest in Malaysian Refining Company Sdn Bhd ("MRC") for cash consideration of USD635 million with adjustment at completion. The transaction is anticipated to be completed on 31 December 2014. Upon the completion of the above acquisition, PETRONAS will own 100% interest in MRC.

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.

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



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.

30 September 2014

In RM Mil

	Level 1	Level 2	Total
Financial assets			
Quoted shares	5,376	-	5,376
Short term marketable securities	-	495	495
Quoted securities	24	506	530
Malaysian Government Securities	-	1,195	1,195
Corporate Private Debt Securities	-	4,423	4,423
Commodity swaps	-	1	1
Forward foreign exchange contracts	-	409	409
Forward gas contracts	111	-	111
Forward oil price contracts	35	-	35
	<u>5,546</u>	<u>7,029</u>	<u>12,575</u>
Financial liabilities			
Interest rate swaps	-	(3)	(3)
Forward foreign exchange contracts	-	(752)	(752)
Forward gas contracts	(46)	-	(46)
Forward oil price contracts	(117)	-	(117)
	<u>(163)</u>	<u>(755)</u>	<u>(918)</u>

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
	<u>6,070</u>	<u>9,004</u>	<u>15,074</u>
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)
	<u>(16)</u>	<u>(410)</u>	<u>(426)</u>

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



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

10. OPERATING SEGMENTS

Effective second quarter of 2014, the reportable operating segments now comprise Upstream, Downstream and Corporate and Others. The change in the reportable operating segments is in line with the change in the way the Group's businesses are managed. The Upstream segment comprises the operations previously under Exploration and Production as described in the Group's audited consolidated financial statements for the year ended 31 December 2013 together with certain operations from the former Gas and Power segment, namely purchase and liquefaction of natural gas, marketing and trading of liquefied natural gas ("LNG") and sales gas. The Downstream segment's operations remain the same as described in the Group's audited consolidated financial statements for the year ended 31 December 2013 with the addition of gas processing operations and power business, which was previously reported under the Gas and Power segment. Corporate and Others segment comprises primarily maritime and logistics segment, property segment and central treasury function. Accordingly, the Group has restated the operating segment information for the prior periods.

Performance is measured based on segment Profit After Tax ("PAT") as included in the internal management reports. Segment PAT is used to measure performance as the Group chief operating decision maker, which in this case is the PETRONAS Executive 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

	2014		2013		Individual quarter ended 30 September	
	2014	2013	2014	2013	2014	2013
<i>In RM Mil</i>						
	Restated		Restated		Restated	
	Third Parties		Inter-segment		Gross Total	
Upstream	39,643	38,546	8,056	9,209	47,699	47,755
Downstream	37,916	39,514	1,659	1,781	39,575	41,295
Corporate and Others	2,814	3,347	1,258	753	4,072	4,100
Total	80,373	81,407	10,973	11,743	91,346	93,150
					Cumulative quarter ended 30 September	
	Restated		Restated		Restated	
	Third Parties		Inter-segment		Gross Total	
Upstream	126,612	106,818	26,635	26,833	153,247	133,651
Downstream	113,657	115,846	5,185	4,852	118,842	120,698
Corporate and Others	9,512	9,843	3,029	2,288	12,541	12,131
Total	249,781	232,507	34,849	33,973	284,630	266,480

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



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

10. OPERATING SEGMENTS (continued)

10.2 Segment PAT

	Individual quarter ended		Cumulative quarter ended	
	2014	30 September 2013 Restated	2014	30 September 2013 Restated
<i>In RM Mil</i>				
Upstream	12,714	13,774	45,099	41,629
Downstream	1,539	2,312	5,322	7,260
Corporate and Others	132	355	2,472	2,270
Total PAT for reportable segments	14,385	16,441	52,893	51,159
Elimination of inter-segment transactions	688	748	1,995	1,664
Consolidated PAT	15,073	17,189	54,888	52,823

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



PART B – OTHER EXPLANATORY NOTES

11. REVIEW OF GROUP PERFORMANCE

Cumulative quarter ended		In RM Mil	Individual quarter ended		
30.9.2013	30.9.2014		30.9.2014	30.6.2014	30.9.2013
232,507	249,781	Revenue	80,373	85,359	81,407
52,823	54,888	Profit for the period	15,073	21,060	17,189
93,633	99,034	EBITDA ²	29,208	35,195	32,941
			As at	As at	
			30.9.2014	31.12.2013	
In RM Mil					
Total assets			545,126	528,660	
Shareholders' equity			357,429	335,803	
Gearing ratio ³			9.4%	11.1%	
ROACE ⁴			16.6%	17.0%	

Third quarter PETRONAS Group recorded revenue of RM80.4 billion, a decrease of 1% compared with RM81.4 billion for the same period in 2013. Similarly, profit for the quarter decreased to RM15.1 billion from RM17.2 billion recorded in the corresponding quarter a year ago.

The decrease in current quarter revenue was driven by lower average realised prices for most major products in line with the downward trend of benchmark crude oil price, Dated Brent, coupled with the effect of unfavourable US Dollar exchange rate movement against the Ringgit. Nevertheless, the negative impact of lower average realised prices and exchange rate was partially offset by higher crude oil production volume mainly from Iraq and domestic fields.

Profit and EBITDA for the quarter decreased by RM2.1 billion and RM3.7 billion respectively as compared to the same period last year primarily due to lower revenue recorded for the quarter and higher net loss on foreign exchange, partially offset by higher gain on disposal of property, plant and equipment in the current quarter.

Cumulative quarter PETRONAS Group recorded a 7% growth in revenue for the period ended 30 September 2014 at RM249.8 billion compared to RM232.5 billion a year ago mainly driven by higher crude oil production volume from Iraq's new producing fields and South Sudan, as well as higher processed gas sales volume driven by higher gas supply from the importation of LNG via the RGT in Melaka, coupled with the effect of favourable US Dollar exchange rate movement against the Ringgit.

Profit and EBITDA for the period increased by RM2.1 billion and RM5.4 billion respectively as compared to the same period last year primarily contributed by higher revenue recorded and higher gain on disposal of property, plant and equipment for the period, partially negated by higher net depreciation and amortisation expense, as well as higher net impairment losses in the current period.

Total assets increased to RM545.1 billion as at 30 September 2014 as compared to RM528.7 billion as at 31 December 2013 primarily as a result of the profit generated for the period. Shareholders' equity of RM357.4 billion as at 30 September 2014 increased by RM21.6 billion compared to as at 31 December 2013 mainly due to the net impact of profit for the period attributable to shareholders of the Company, the final dividend in respect of the financial year ended 31 December 2013 and the interim dividend in respect of the financial year ended 31 December 2014 amounting to RM22.0 billion and RM2.0 billion respectively.

Gearing ratio decreased to 9.4% as at 30 September 2014 compared to 11.1% as at 31 December 2013 due to lower debt following net repayment of borrowings during the period. ROACE is marginally lower at 16.6% as at 30 September 2014 compared to 17.0% as at 31 December 2013.

² 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.

³ Gearing ratio is calculated as total debt divided by the total of shareholders' equity and debt as at period/year end.

⁴ 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.

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



PART B – OTHER EXPLANATORY NOTES (continued)

12. REVIEW OF PERFORMANCE - UPSTREAM

Cumulative quarter ended		<i>Financial Indicators</i>	Individual quarter ended		
30.9.2013 Restated	30.9.2014		30.9.2014	30.6.2014	30.9.2013 Restated
<i>In RM Mil</i>					
Revenue					
106,818	126,612	Third party	39,643	43,721	38,546
26,833	26,635	Inter-segment	8,056	8,518	9,209
133,651	153,247		47,699	52,239	47,755
41,629	45,099	PAT	12,714	17,117	13,774
Cumulative quarter ended		<i>Operational Indicators</i>	Individual quarter ended		
30.9.2013	30.9.2014		30.9.2014	30.6.2014	30.9.2013
Production ⁵ (‘000 boe ⁶ per day)					
752	839	Crude oil and condensate	822	851	772
1,346	1,342	Natural gas	1,256	1,355	1,292
2,098	2,181		2,078	2,206	2,064
Oil and gas entitlement ⁷ (‘000 boe ⁶ per day)					
537	601	Crude oil and condensate	576	648	564
1,016	1,124	Natural gas	1,119	1,008	1,010
1,553	1,725		1,695	1,656	1,574
2,699	2,797	Malaysia average sales gas volume (mmscfd) ⁸	2,650	2,960	2,604
21.30	22.36	LNG sales volume (million tonnes)	7.22	7.50	7.51

Third quarter Revenue for the quarter ended 30 September 2014 was RM47.7 billion compared to RM47.8 billion in the corresponding quarter last year. Marginally lower revenue was mainly contributed by lower crude prices and lower LNG sales volume from PETRONAS LNG Complex (“PLC”), despite higher entitlement. PAT decreased to RM12.7 billion compared to RM13.8 billion in the corresponding quarter last year, mainly due to lower revenue as explained above, coupled with higher impairment, higher Iraq amortisation and higher LNG feedgas cost.

Total production volume for the quarter was 2,078 thousand boe per day compared to 2,064 thousand boe per day in the corresponding quarter last year. Crude oil and condensates production volume was higher mainly due to new production stream from Iraq, Malaysia and Vietnam. Natural gas production was lower compared to the same quarter last year mainly due to major planned shutdowns in Sarawak fields, natural decline rate in Egypt, negated by new production in Malaysia and additional production from Canada.

Total LNG sales volume for the quarter was lower by 0.29 million tonnes or 4% as compared to the corresponding quarter in 2013 mainly driven by lower sales from PLC in Bintulu, Sarawak and lower Egypt entitlement. Malaysia average sales gas volume was higher by 46 mmscfd compared to the corresponding period last year mainly due to higher demand from all sources.

⁵ Represents Malaysia’s production and PETRONAS Group’s international equity production volume.

⁶ boe: barrels of oil equivalent

⁷ Represents PETRONAS Group’s entitlement to Malaysia’s production and PETRONAS Group’s international entitlement volume.

⁸ mmscfd: million standard cubic feet per day

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



PART B – OTHER EXPLANATORY NOTES (continued)

12. REVIEW OF PERFORMANCE - UPSTREAM (continued)

Cumulative quarter Revenue for the cumulative quarter ended 30 September 2014 was RM153.2 billion compared to RM133.7 billion in the corresponding period last year. The higher revenue by 15% reflects the increase in entitlement volume, in line with favourable performance in production. The increase in revenue is also supported by higher PLC sales volume and higher realised LNG prices. Similarly, PAT increased by RM3.5 billion compared to the corresponding period last year in line with higher revenue as explained above, negated by higher impairment, higher Iraq amortisation, higher LNG feedgas cost, Sudan's pipeline tariff increase and its partial relinquishment.

Total production volume for cumulative quarter ended 30 September 2014 was 2,181 thousand boe per day compared to 2,098 thousand boe per day in the corresponding period last year. Crude oil and condensates production volume was higher mainly due to new production stream from Iraq and Malaysia, production resumption in South Sudan and production enhancement efforts. Natural gas production was lower compared to the corresponding period last year mainly due to natural decline rate in Egypt, negated by new production from Malaysia, higher demand in Turkmenistan and additional production from Canada.

Total LNG sales volume for the period was higher by 5% as compared to the corresponding period in 2013 driven by higher trading volume and higher sales from PLC in Bintulu, Sarawak. Malaysia average sales gas volume was higher by 98 mmscfd compared to the corresponding period last year mainly due to higher domestic supply from Kertih, Terengganu and RGT.

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



PART B – OTHER EXPLANATORY NOTES (continued)

13. REVIEW OF PERFORMANCE - DOWNSTREAM

Cumulative quarter ended		<i>Financial Indicators</i>	Individual quarter ended		
30.9.2013 Restated	30.9.2014		30.9.2014	30.6.2014	30.9.2013 Restated
<i>In RM Mil</i>					
Revenue					
115,846	113,657	Third party	37,916	38,154	39,514
4,852	5,185	Inter-segment	1,659	1,771	1,781
120,698	118,842		39,575	39,925	41,295
7,260	5,322	PAT	1,539	1,957	2,312

Cumulative quarter ended		<i>Operational Indicators</i>	Individual quarter ended		
30.9.2013	30.9.2014		30.9.2014	30.6.2014	30.9.2013
Petroleum products sales volume (in million barrels)					
219.5	223.6	75.0	75.3	76.6	
Crude oil sales volume (in million barrels)					
143.7	150.4	51.2	54.1	47.0	
Petrochemicals sales volume (in million metric tonnes)					
4.8	4.3	1.4	1.5	1.4	

Third quarter Total revenue for the quarter was RM39.6 billion, a decrease of RM1.7 billion when compared to corresponding period last year. The lower revenue was contributed primarily from lower average realised prices for crude and petroleum products as well as lower actual sales volume for petroleum products.

Petroleum products sales volume was 75.0 million barrels, lower than the corresponding period last year by 1.6 million barrels due to lower bunker and bitumen sales in South Africa due to lower production. Domestic retail sales volume was also lower due to stricter regulatory enforcement.

Crude oil sales volume was higher than the corresponding period last year by 4.2 million barrels mainly due to increased marketing and trading activities.

Downstream PAT was RM1.5 billion, lower than the corresponding period last year by RM0.8 billion mainly due to lower refining margins.

Cumulative quarter Total revenue for the year was RM118.8 billion, lower than the revenue from the corresponding period last year by RM1.9 billion as overall average realised prices across all products were lower coupled with lower sales volume for petrochemical products.

Petroleum products sales volume was 223.6 million barrels, 4.1 million barrels higher than the corresponding period last year mainly contributed by higher trading activities for Jet/Kero due to higher term sales volume secured as well as higher naphtha demand from Petrochemical sector.

Crude oil sales volume was 150.4 million barrels, 6.7 million barrels higher than the corresponding period last year contributed by higher marketing activities which was partially offset by lower trading volume.

Petrochemical products sales volume was lower by 0.5 million metric tonnes compared to the corresponding period last year mainly due to lower plant production.

Downstream cumulative PAT was RM5.3 billion, RM1.9 billion lower than the corresponding period last year mainly due to lower margins for petroleum and petrochemical products as well as lower sales volume for petrochemical products.

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



PART B – OTHER EXPLANATORY NOTES (continued)

14. REVIEW OF PERFORMANCE - CORPORATE AND OTHERS

Cumulative quarter ended		Financial Indicators	Individual quarter ended		
30.9.2013 Restated	30.9.2014		30.9.2014	30.6.2014	30.9.2013 Restated
<i>In RM Mil</i>					
Revenue					
9,843	9,512	2,814	3,484	3,347	
2,288	3,029	1,258	855	753	
12,131	12,541	4,072	4,339	4,100	
2,270	2,472	132	1,273	355	
PAT					

Third quarter Revenue for the quarter was RM4.1 billion, slightly lower than the corresponding quarter a year ago mainly due to lower income from property business, partially negated by higher inter-segment sales due to provision of shipping services to related companies. PAT decreased by RM0.2 billion in line with lower revenue and lower gain on derivatives.

Cumulative quarter Revenue for the period was RM12.5 billion, higher by RM0.4 billion or 3% as compared to the same period last year primarily attributable to higher inter-segment sales due to provision of shipping services to related companies. PAT increased by RM0.2 billion to RM2.5 billion in line with higher revenue.

15. COMPARISON WITH PRECEDING QUARTER'S RESULT

<i>In RM Mil</i>	Individual quarter ended	
	30.9.2014	30.6.2014
Revenue	80,373	85,359
Profit for the period	15,073	21,060
EBITDA	29,208	35,195

PETRONAS Group's revenue of RM80.4 billion for the quarter was lower by RM5.0 billion or 6% as compared to the preceding quarter. The decrease was primarily driven by lower average realised prices for most major products, lower crude oil and LNG sales volume, coupled with the effect of unfavourable US Dollar exchange rate movement against the Ringgit.

Profit and EBITDA decreased by RM6.0 billion as compared to the preceding quarter mainly driven by lower revenue and higher net loss on foreign exchange, partially negated by higher gain on disposal of property, plant and equipment recorded in the current quarter.

16. CURRENT FINANCIAL YEAR PROSPECTS

A surge in global oil supply, particularly from the US and other non-OPEC producers amidst slowing global energy demand has driven Brent crude price to dip below \$85, its lowest level since 2000. The Board expects the fourth quarter operational earnings to be considerably lower than the current quarter.



INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014

PART B – OTHER EXPLANATORY NOTES (continued)

17. TAXATION

<i>In RM Mil</i>	Individual quarter ended		Cumulative quarter ended	
	2014	30 September 2013	2014	30 September 2013
Current tax expenses				
Malaysia	7,245	7,400	21,410	22,900
Overseas	472	670	1,338	1,991
Deferred tax expenses				
Origination and reversal of temporary differences	(8)	619	413	(1,023)
	<u>7,709</u>	<u>8,689</u>	<u>23,161</u>	<u>23,868</u>
Effective tax rate	33.8%	33.6%	29.7%	31.1%

The Group's effective tax rate for the current quarter and period-to-date are 33.8% and 29.7% respectively. The lower effective tax rate for cumulative period is mainly due to higher non-assessable income.

18. CASH, FUND AND OTHER INVESTMENTS

<i>In %</i>	As at 30.9.2014	As at 31.12.2013
By Currency		
RM	73.4	70.4
USD	23.0	24.7
Others	3.6	4.9
	<u>100.0</u>	<u>100.0</u>
By Maturity⁹		
< 1 year	96.7	93.9
1 to 5 years	1.7	4.8
5 to 10 years	1.6	1.3
	<u>100.0</u>	<u>100.0</u>
By Type		
Money market	91.3	88.6
Government securities	0.9	2.4
Corporate bonds	3.9	4.7
Equities	3.9	4.3
	<u>100.0</u>	<u>100.0</u>

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

⁹ Refers to instrument maturity dates; excludes equities.

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



PART B – OTHER EXPLANATORY NOTES (continued)

19. BORROWINGS

The details of the Group borrowings as at 30 September 2014 are as follows:

<i>In RM Mil</i>	As at 30.9.2014	As at 31.12.2013
Non-Current		
Secured		
Term loans	1,103	1,700
Islamic financing facilities	1,433	1,427
Total non-current secured borrowings	2,536	3,127
Unsecured		
Term loans	10,211	5,988
Notes and Bonds	14,692	16,802
Islamic financing facilities	2,455	3,085
Total non-current unsecured borrowings	27,358	25,875
Total non-current borrowings	29,894	29,002
Current		
Secured		
Term loans	1,023	988
Islamic financing facilities	169	339
Total current secured borrowings	1,192	1,327
Unsecured		
Term loans	629	291
Notes and Bonds	2,048	2,301
Islamic financing facilities	362	5,816
Revolving credits	2,006	2,576
Bank overdrafts	1,082	533
Total current unsecured borrowings	6,127	11,517
Total current borrowings	7,319	12,844
Total borrowings	37,213	41,846

INTERIM FINANCIAL REPORT

FOR THIRD QUARTER 2014



PART B – OTHER EXPLANATORY NOTES (continued)

19. BORROWINGS (continued)

<i>In RM Mil</i>	As at		As at	
	30.9.2014	%	31.12.2013	%
By Currency				
USD	26,279	70.6	28,935	69.1
RM	6,257	16.8	8,191	19.6
EUR	1,918	5.2	2,144	5.1
GBP	1,460	3.9	1,664	4.0
ZAR	1,003	2.7	663	1.6
Others	296	0.8	249	0.6
	37,213	100.0	41,846	100.0
By Repayment Schedule				
< 1 year	7,319	19.7	12,844	30.7
1 to 5 years	21,579	58.0	12,057	28.8
5 to 10 years	6,666	17.9	15,299	36.6
10 to 20 years	1,649	4.4	1,646	3.9
	37,213	100.0	41,846	100.0

20. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument for the quarter ended 30 September 2014.

21. 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 THIRD QUARTER 2014



PART B – OTHER EXPLANATORY NOTES (continued)

22. PROFIT FOR THE PERIOD

<i>In RM Mil</i>	Individual quarter ended 30 September		Cumulative quarter ended 30 September	
	2014	2013	2014	2013
Included in profit for the period are the following charges:				
Bad debt written off	8	2	137	4
Depreciation and amortisation	6,416	6,715	20,508	17,326
Impairment losses on:				
- receivables	145	-	484	146
- intangible assets	5	733	89	840
- property, plant and equipment	499	88	1,609	110
Net loss on derivatives	-	-	76	109
Net loss on foreign exchange	1,365	487	1,237	1308
and credits:				
Dividend income	208	153	277	285
Gain on disposal of investments and property, plant and equipment	652	221	1,162	972
Interest income	1,110	1,138	3,349	3,288
Net gain on derivatives	83	213	-	-
Write back of impairment losses on:				
- receivables	131	-	215	-
- intangible assets	74	23	74	89
- property, plant and equipment	-	20	-	70

23. DIVIDENDS

As disclosed in Note 6.

24. EXCHANGE RATES

US dollar/RM	30.9.2014	Individual quarter ended		Cumulative quarter ended		
		30.6.2014	30.9.2013	30.9.2014	30.6.2014	30.9.2013
Average rate	3.1935	3.2345	3.2384	3.2419	3.2661	3.1299
Closing rate	3.2765	3.2115	3.2575	3.2765	3.2115	3.2575

By order of the Board

Abdul Rahman Musa @ Onn (LS 0009706)
Company Secretary
Kuala Lumpur
28 November 2014