PETRONAS

MOVING FORWARD TOGETHER

ANNUAL REPORT 2017

MOVING FORWARD TOGETHER

The cover of our Annual Report is a celebration of the diverse people upon whom we rely to steer us through the vagaries of our complex industry.

We show the many different roles within our organisation, and at the same time there is a clear sense of equality, of cohesiveness and of the ease with which we work together.

We chose pencil drawings to impart our simple message - that whilst we operate in a fast-paced, technology-driven industry where change and agility are integral to success, we also stay true to our Shared Values which enable us to move forward together.

ABOUT THIS REPORT

This Annual Report combines our financial and non-financial reporting.

The consolidated financial statements of the PETRONAS Group as at 31 December 2017, comply with the International Financial Reporting Standards (IFRS) valid at the closing date and with the provisions of the Malaysian Financial Reporting Standards (MFRS). Our reporting is also aligned with international guidelines and recommendations.

At PETRONAS, we see reporting as an ongoing and evolving process, not just as an annual exercise. We expect to evolve further still and invite your feedback on this Report, as well as our approach to reporting at digital.comm@petronas.com.

The PETRONAS Annual Report 2017 is available in both print and online versions.

The online version of PETRONAS Annual Report 2017 can be found at http://www.petronas.com.my/investor-relations/Pages/AnnualRepTimeline.aspx

INSIDE THIS REPORT

SECTION
01 WHO WE ARE

SECTION
02 STRATEGIC REPORTS

SECTION
03 OUR COMMITMENT TO SUSTAINABILITY

SECTION
04 EMBEDDING TRUST

SECTION
05 FINANCIAL STATEMENTS

PETRONAS AT A GLANCE

UPSTREAM

See Upstream pages 63 to 65.

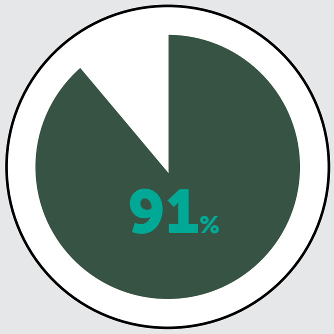
Total LNG sales volume of **30.72** million metric tonnes

443 **BCE LNG loadable** delivered from the PETRONAS LNG Complex in Bintulu, Sarawak

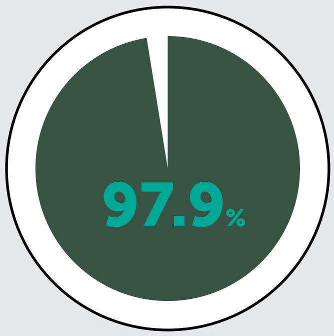
Average production **2,320** kboe/d

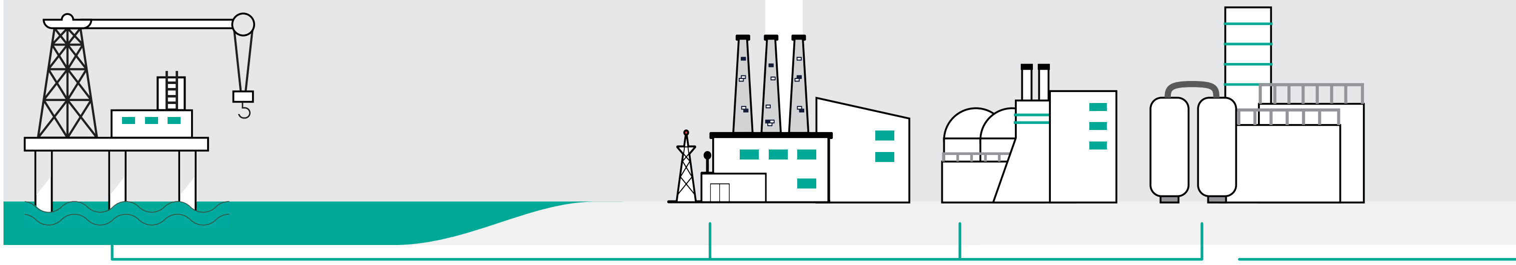
DOWNSTREAM

Plant Utilisation



Reliability

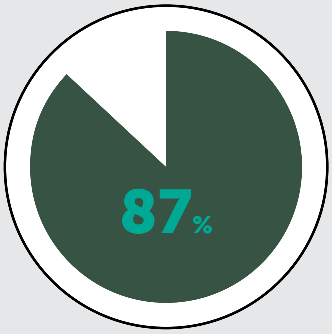




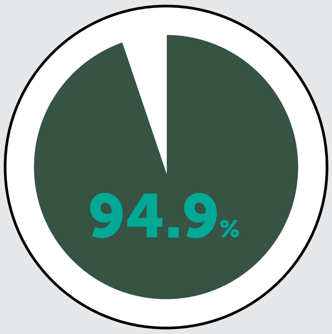
>>Petroliam Nasional Berhad (PETRONAS) is Malaysia's national oil company and is on track towards becoming a leading oil and gas multinational of choice, ranked amongst the largest corporations in the world.

See Upstream pages 66 to 69.

Pengerang Integrated Complex Completion*



Overall Equipment Effectiveness (OEE)



Downstream recorded 227 million manhours, **60% higher compared to last year**

PETRONAS' Retail business recorded **the highest unit margin in 5 years**, contributed by higher fuel volume and convenience income

Expanded availability of **the new PETRONAS Dynamic Diesel Euro 5** across Peninsular Malaysia and Sarawak

PETRONAS Chemicals Fertiliser Sabah Sdn Bhd (SAMUR) **began commercial operations in May 2017**

4-Time Consecutive World Constructors' Champion in Formula One™

* Status as at March 2018

We deliver energy efficiently and reliably, having built capabilities across every stage of the oil and gas value chain. We maximise the value of every molecule through our fully integrated business model. We continue to strengthen our portfolio of conventional and unconventional resources, broaden our offering of diverse petrochemical products and maintain our track record of successful project delivery.

As we progress towards a low-carbon energy future, we continue to leverage technology, technical capabilities and our diverse, resilient and competent workforce to sustainably deliver energy to the world.

PETRONAS AROUND

NORTH AMERICA

UPSTREAM • Canada – (Unconventional) Development & Production
• Mexico – Exploration

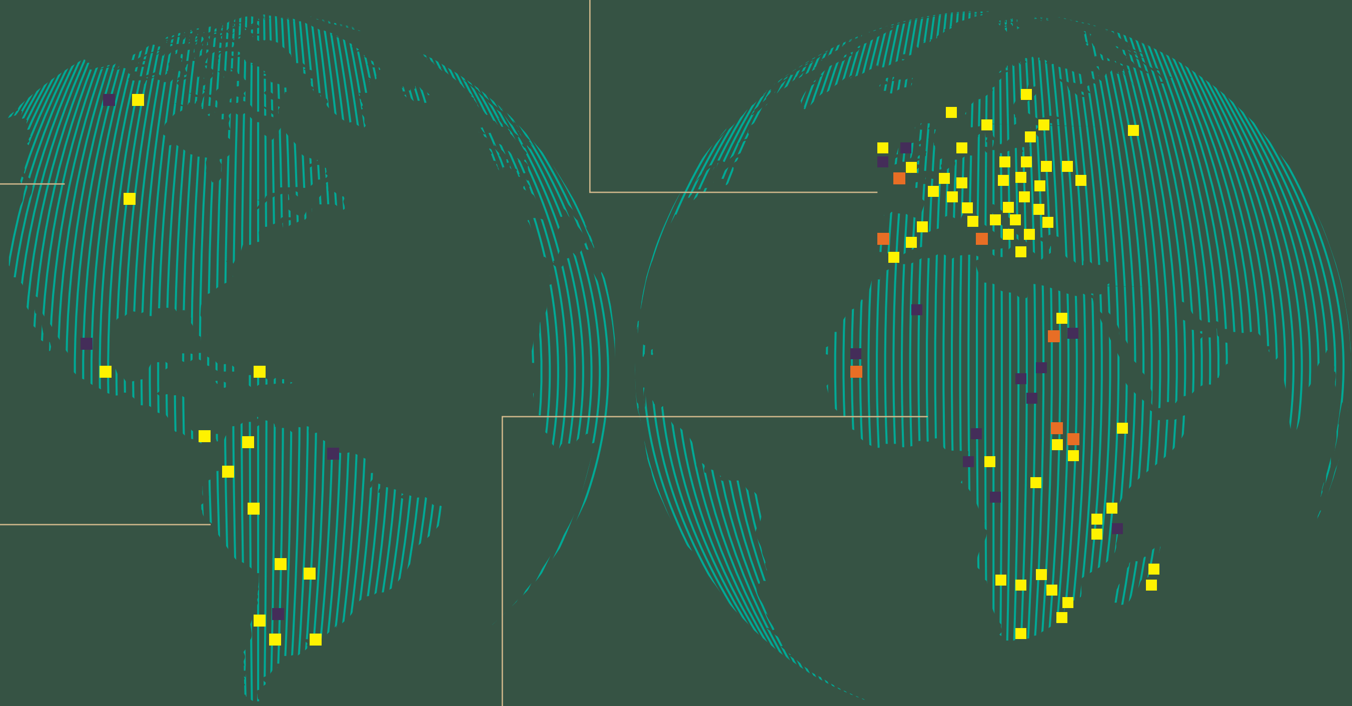
DOWNSTREAM • Canada – Lubricants
• Guatemala – Lubricants
• Mexico – Lubricants **• Honduras** – Lubricants
• El Salvador – Lubricants **• Costa Rica** – Lubricants
• Dominican Republic – Lubricants
• United States of America – Petrochemicals, Lubricants

EUROPE

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

DOWNSTREAM • Austria – Lubricants **• Belgium** – Lubricants **• Bulgaria** – Lubricants
• Czech Republic – Lubricants **• Denmark** – Lubricants **• Finland** – Lubricants
• France – Lubricants **• Germany** – Lubricants **• Greece** – Lubricants **• Hungary** – Lubricants
• Italy – Lubricants **• Moldova** – Lubricants **• Norway** – Lubricants **• Poland** – Lubricants
• Portugal – Lubricants **• Romania** – Lubricants **• Russia** – Lubricants **• Slovakia** – Lubricants
• Slovenia – Lubricants **• Spain** – Lubricants **• Sweden** – Lubricants
• Switzerland – Lubricants **• United Kingdom** – Lubricants **• Netherlands** – Lubricants

PROJECT DELIVERY & TECHNOLOGY • Italy • Spain • United Kingdom



LATIN AMERICA

UPSTREAM • Suriname – Exploration **• Argentina** – (Unconventional) Development & Exploration

DOWNSTREAM • Argentina – Lubricants
• Bolivia – Lubricants **• Brazil** – Lubricants
• Chile – Lubricants **• Colombia** – Lubricants
• Ecuador – Lubricants **• Guyana** – Lubricants
• Paraguay – Lubricants **• Peru** – Lubricants
• Suriname – Lubricants **• Uruguay** – Lubricants

AFRICA

UPSTREAM • Algeria – Production **• Angola** – Exploration **• Chad** – Production
• Egypt – Development, Production & LNG **• Gabon** – Exploration
• Republic of Sudan – Development & Production
• Republic of South Sudan – Development & Production

DOWNSTREAM • Cote D'Ivoire – Lubricants**• Algeria** – Lubricants **• Angola** – Lubricants
• Botswana – Retail, Lubricants **• Burundi** – Lubricants **• Cameroon** – Lubricants
• ****Democratic Republic of the Congo** – Retail, Lubricants **• Gabon** – Retail, Lubricants
• Ghana – Retail, Lubricants • ****Kenya** – Retail **• Lesotho** – Retail, Lubricants
• Lesotho – Retail • ****Malawi** – Retail, Lubricants **• Mali** – Lubricants **• Mauritania** – Lubricants
• Mauritius – Retail **• Morocco** – Lubricants • ****Mozambique** – Retail, Lubricants
• Namibia – Retail, Lubricants • ****Reunion** – Retail, Lubricants • ****Rwanda** – Retail, Lubricants
• South Africa – Refinery, Retail, Lubricants **• Swaziland** – Retail
• ****Tanzania** – Retail, Lubricants **• Togo** – Lubricants **• Tunisia** – Lubricants
• ****Zambia** – Retail, Lubricants • ****Zimbabwe** – Retail

**In Nov 2017, Vivo Energy agreed to enter into a share transaction with Engen

PROJECT DELIVERY & TECHNOLOGY • Egypt • Mauritania • Republic of South Sudan
• Republic of Sudan

THE WORLD

MIDDLE EAST

UPSTREAM • Iraq – Development & Production

DOWNSTREAM • Egypt – Lubricants
• Iraq – Lubricants **• Jordan** – Lubricants
• Saudi Arabia – Lubricants
• United Arab Emirates – Lubricants
• Iran – Lubricants

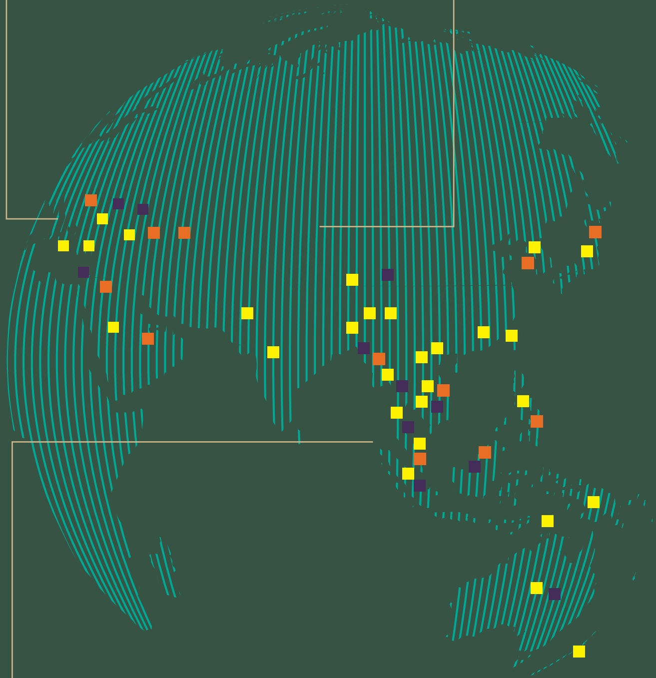
PROJECT DELIVERY & TECHNOLOGY
• Iraq • United Arab Emirates

CENTRAL ASIA

UPSTREAM • Azerbaijan – Development & Production **• Turkmenistan** – Development & Production

DOWNSTREAM • Turkey – Lubricants
• Turkey – Lubricants

PROJECT DELIVERY & TECHNOLOGY
• Azerbaijan • Turkmenistan



ASIA PACIFIC

UPSTREAM • Australia – Exploration, Development, Production & LNG
• Brunei – Exploration & Development **• Indonesia** – Exploration, Development & Production
• Japan – LNG Marketing **• Malaysia** – Exploration, Development, Production & LNG
• Malaysia–Thailand Joint Development Area – Exploration, Development & Production
• Myanmar – Exploration, Development & Production **• Vietnam** – Production

DOWNSTREAM • Australia – Petrochemicals, Lubricants **• Bangladesh** – Lubricants
• Cambodia – Lubricants **• China** – Petrochemicals, Lubricants
• India – Petrochemicals, Lubricants **• Indonesia** – Petrochemicals, Lubricants
• Japan – Petrochemicals, Lubricants **• Malaysia** – Petrochemicals, Retail, Refinery, Lubricants
• Myanmar – Lubricants **• Nepal** – Lubricants **• New Zealand** – Petrochemicals, Lubricants
• Pakistan – Lubricants **• Philippines** – Petrochemicals **• Sri Lanka** – Lubricants
• Singapore – Petrochemicals, Lubricants **• South Korea** – Petrochemicals
• Taiwan – Petrochemicals **• Thailand** – Petrochemicals, Lubricants
• Vietnam – Petrochemicals, Lubricants

PROJECT DELIVERY & TECHNOLOGY • Brunei • China • India • Indonesia • Japan
• Malaysia • Myanmar • Philippines • South Korea • Vietnam

OUR WORKFORCE

PETRONAS Employees by Region

Africa	8.2%
Asia	85.1%
Australia & New Zealand	0.1%
Commonwealth of Independent States	1.3%
Europe	2.3%
Middle East	1.8%
North & South America	1.2%

Total Employees	**49,911**
Within Malaysia	82.0%
Outside Malaysia	18.0%

Legend

UPSTREAM

DOWNSTREAM

PROJECT DELIVERY & TECHNOLOGY

OUR PROFILE

VISION

A LEADING OIL AND GAS MULTINATIONAL OF CHOICE

MISSION

We are a business entity

Oil and gas is our core business

We add value to this resource

We contribute to the wellbeing of society

SHARED VALUES

LOYALTY
Loyal to corporation

INTEGRITY
Honest and upright

PROFESSIONALISM
Strive for excellence

COHESIVENESS
United, trust and respect for each other

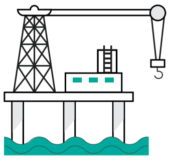
Petroliam Nasional Berhad (PETRONAS) is Malaysia's national oil company and is on track towards becoming a leading oil and gas multinational of choice, ranked amongst the largest corporations on FORTUNE Global 500®.

Since 1974, we have built our capabilities across every stage of the oil and gas value chain. We maximise the value of every molecule through our integrated business model. Our portfolio grows with conventional and unconventional resources; broadens with diverse fuel, lubricant and petrochemical products; and strengthens with a successful project delivery track record.

Our technology is our differentiator, our people are our strength and our partners are our growth.

The world's energy needs are our fuel to deliver energy efficiently, reliably and sustainably.

UPSTREAM



A fully integrated business covering a broad portfolio of resources and play types in more than

20 countries

MAXIMISING RESOURCES FOR GROWTH

PETRONAS' Upstream business which encompasses Exploration, Development and Production, LNG Assets, LNG Marketing and Trading, and Malaysia Petroleum Management (MPM) is a fully integrated business covering a broad portfolio of resources and play types in more than 20 countries.

Our proven capability and track record of successful onshore and offshore developments in oil and gas have earned us reputable operatorship in many ventures across the world.

Our Upstream presence extends across 22 countries globally, with 216 producing fields, 383 offshore platforms and 25 floating facilities. We also promote sustainable and orderly development of Malaysia's petroleum resources through 97 active Petroleum Arrangement Contracts.

In Malaysia, we hold custodianship of Malaysia's petroleum resources. In our established ventures in Malaysia and internationally, we deliver resource addition from proven basins and maximise value. We strengthen value-driven partnerships in focused geographies through exploration discoveries and discovered resource opportunities. We explore basins with high material oil potential and are developing a portfolio of high-value shale plays which will continue to grow. We provide flexibility and solutions across the total LNG value chain.

Our fiscally disciplined, balanced, integrated and growth-focused strategy will enable us to continue delivering energy sustainably.

EXPLORATION

Exploration is the growth engine for PETRONAS comprising a consolidation of exploration functions from Upstream Malaysia, Upstream International (PETRONAS Carigali Sdn Bhd) and Malaysia Petroleum Management which explores, acquires, extracts and delivers new resources to sustain long-term production. Core activities are block acquisitions, growth strategies, basin evaluations, play generation, prospect maturation and exploration drilling. An Exploration Centre of Excellence (CoE) delivers new resource addition by providing the pipeline for hydrocarbon reserves to be developed, leading to sustained and long-term hydrocarbon production. The CoE comprises Basin and Petroleum System Analysis, Geology Solutions, Reservoir Geoscience and Geophysics Solutions.

DEVELOPMENT AND PRODUCTION

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

PETRONAS has successfully commissioned the world's first coal bed methane-to-LNG project in Gladstone, Australia, Train 9 at the PETRONAS LNG Complex in Bintulu, Sarawak and the PETRONAS Floating LNG SATU (PFLNG SATU). The completion and commissioning of the PFLNG SATU, the first of its kind in the world, positions us to be at the forefront of technology and innovation in carrying out our strategies to monetise gas. A portfolio of inventive technology and engineering solutions complement our existing capabilities across the integrated gas value chain, providing PETRONAS a competitive edge and flexibility to meet buyers' energy needs.

Meanwhile, end-to-end capabilities across the integrated gas value chain have allowed PETRONAS to become one of the world's leading global LNG players and reliable LNG suppliers, with a total LNG production capacity of 34.7 mtpa (equity for Egypt LNG and Gladstone LNG). We have successfully delivered more than 10,000 LNG cargoes to buyers across the globe for more than three decades.

The PETRONAS LNG Complex in Bintulu is one of the world's largest LNG production facilities at a single location, with a current total of nine production trains and a combined capacity of 29.3 mtpa. The D&P CoE which comprises Petroleum Engineering, Wells, Operational Excellence, Unconventional, Petroleum Economics and Global Planning and Capability collectively provide value-driven technical and commercial solutions, in collaboration with Exploration CoE and Project Delivery and Technology (PD&T) to support business growth.

Delivered more than
10,000 LNG cargoes
to buyers across the globe

MALAYSIA PETROLEUM MANAGEMENT

PETRONAS' successes in our upstream efforts in Malaysia are realised through efficient, profitable and value maximising partnerships with oil and gas majors and international and domestic service providers.

MPM has the responsibility of developing a competitive and conducive investment environment for our operators by offering robust fiscal terms. MPM also plays the role of an enabler, working with operators in petroleum activities across the value chain and throughout the entire asset life. This collaboration and partnership have led to the successful development of Malaysia's oil and gas industry, enabling further growth in mature basins in support of maximising Malaysia's resource recovery.

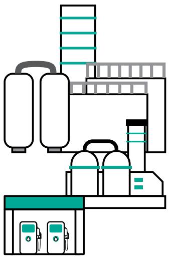
LNG BUSINESS

Our LNG capabilities capture the best value across the LNG value chain by offering the most competitive value propositions to PETRONAS' LNG customers.

Our total LNG solutions allow us to deliver abundant gas resources in a way that is reliable, flexible, sustainable and affordable. This enables us to deliver the energy to meet the needs of emerging markets whilst driving towards a low-carbon future.

Operating in a manner that is commercially, environmentally and socially sustainable, PETRONAS strives to invest and build capabilities in communities where we operate. This commitment drives us to innovate and consistently deliver value to our partners, stakeholders and investors in the upstream business.

DOWNSTREAM



We are recognised as a significant industry player with **competitive products, offerings and solutions** delivered to customers with **consistent quality and reliability**

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

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

PRODUCTION CAPACITY AND GROWTH PROJECTS

Currently, PETRONAS has 546 kbpd of refining capacity (of which 446 kbpd comes from our domestic operations, and the remaining from Durban, South Africa), and 12.7 mtpa of petrochemical production capacity from 30 subsidiaries, joint ventures and associate companies.

Pengerang Integrated Complex (PIC) located in Pengerang, Johor is on track and ready for start-up in the first quarter of 2019. It will increase the refining capacity by 300 kbpd and strengthen PETRONAS Chemicals Group Berhad (PCG)'s product portfolio into key growth areas of differentiated and specialty chemicals. PIC, one of the largest integrated refinery and petrochemical development in this region, will diversify the feedstock from gas-based to naphta and expand our portfolio of products to include specialty chemicals.

GAS PROCESSING AND UTILITIES

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

PETROCHEMICALS

PETRONAS Chemicals Group Berhad (PCG) is the leading petrochemical producer in Malaysia and the largest gas-based chemical producer in Southeast Asia. PCG is involved primarily in the manufacturing, marketing and selling of a diverse range of petrochemical products including olefins, polymers, fertilisers, methanol and other chemicals and derivative products. Today, our integrated petrochemical complexes in Kertih, Terengganu and Gebeng, Pahang as well as manufacturing complexes in Gurun, Kedah; Bintulu, Sarawak; and Labuan have a total production capacity of 12.7 mtpa. PCG has marketing subsidiaries in Malaysia, Thailand and China as well as representative offices in Indonesia, Vietnam and the Philippines. PCG currently has more than 1,000 active customers around the world; with more than 80 per cent of our business coming from customers who have been with us for more than 10 years.

Chemical Product

17 Manufacturing Companies

producing a wide range of chemical products

Business Segment

2 Business Segments

- Olefins and derivatives from 11 plants
- Fertilisers and methanol from 6 plants

Petrochemical Complex

2 Integrated Petrochemical Complexes

- Kertih, Terengganu
- Gebeng, Pahang

Integrated Business Model

Fully Integrated Facilities and Infrastructure

resulting in lower cost, optimum yields and greater flexibility

- Minimise molecule loss
- Maximise production efficiency and margins

Market Leadership

Largest Methanol Producer in Asia Pacific

Fourth largest in the world

1st MTBE, butanol, BGE & ethanolamines producer in South East Asia*

2nd ammonia, urea & butyl acetate producer in South East Asia*

3rd ethoxylates, MEG & LDPE producer in South East Asia*

** by capacity*

MARKETING AND TRADING

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

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

PRODUCT RANGE

Fuel

PETRONAS PRIMAX 95

PETRONAS PRIMAX 97

PETRONAS DYNAMIC DIESEL

PETRONAS DYNAMIC DIESEL EURO 5 with Pro-Drive

NGV

ENGEN PRIMAX Unleaded

ENGEN DYNAMIC Diesel

Non-Fuel

Mesra

MORNINGS @ mesra

Quick SHOP

Cards

LPG

GAS PETRONAS

PETRONAS Lubricants International Sdn Bhd (PLI) is the global lubricant manufacturing and marketing arm of PETRONAS. Established in 2008, PLI manufactures and markets a full range of high-quality automotive and industrial lubricant products in over 90 markets globally. Headquartered in Kuala Lumpur, PLI has over 30 marketing offices in 27 countries, managed through regional offices in Kuala Lumpur, Turin, Belo Horizonte, Chicago and Durban. Currently ranked amongst the world's top 10 lubricant players, PLI is driving an aggressive business growth agenda to secure our position as a leading global lubricant company.

Since 2009, PETRONAS has not only been the Title Sponsor, but more importantly, collaborates with the Mercedes-AMG PETRONAS Motorsport team as its Technical Partner. Our Fluid Technology Solutions™- fuels, lubricants and functional fluids - were developed alongside the team's engines, and powered the Silver Arrows to win four consecutive World Constructors' Championships in 2014, 2015, 2016 and 2017.

PETRONAS will continue to sustain our world-class operational excellence and competitive marketing capabilities to capture opportunities domestically as well as in key growth markets internationally. Emphasis will also be placed on delivering key projects safely, on time and within cost.

Downstream Business Excellence will focus on operational strategy, planning and integration, HSSE excellence, asset performance excellence, plant project, turnaround and shutdown excellence as well as culture excellence.

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

PRODUCT RANGE

Passenger Car Motor Oil

PETRONAS SYNTIUM

PETRONAS SELÉNIA

Motorcycle Oil

PETRONAS Sprinta

Agriculture

PETRONAS Akros

PETRONAS Arbor

Ancillary

PETRONAS Tutela

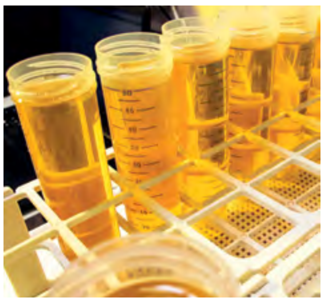
PETRONAS Paraflu

Commercial Vehicle

PETRONAS Urania

PETRONAS Urania

BASE OIL



ETRO

Group II	Group III	
M500 / ETRO 3	ETRO 4 / ETRO 6 / MG3D90	ETRO 4+ / ETRO 6+

INDUSTRIAL & MARINE

Product Categories

Hydraulic | Gear | Grease | Compressor | Turbine

Metalworking Fluid | Transformer | Specialty | Marine Engine Oil

PROJECT DELIVERY AND TECHNOLOGY

PETRONAS continues to redefine the future of energy with innovative approaches to project, technology and engineering in order to maximise and deliver sustainable energy for tomorrow. Project Delivery and Technology (PD&T), a Centre of Excellence (CoE) with distinctive expertise, leading practices and innovative solutions, as well as robust systems and processes, is strategically positioned to drive PETRONAS' growth and future positioning strategies.

PETRONAS leverages the synergy between Engineering, Procurement, Projects and Technology portfolios to deliver top-quartile projects and assets as well as technology as a differentiator and top quartile assets. The merging of engineering experts under one roof streamlines design and technical standards for projects, and allows efficient problem solving for smoother operations. In ensuring Procurement excellence, we leverage digitalisation to enhance value creation by adopting innovative solutions in streamlining procurement activities across the Group.

Research and development efforts are also strategically positioned through streamlined activities by our in-house researchers and engineering experts to ensure our competitive advantage well into the future.

PD&T is also the custodian for technical data, performing analytics and drawing insights aimed to improve operational efficiencies and drive business growth. In technical capability management, PD&T provides a stewardship role in ensuring a technically-competent workforce for PETRONAS.

The integration of these portfolios under PD&T allows PETRONAS to have a better oversight and control over the end-to-end value chain of these functions. Consequently, this paves the way for us to create better synergy and collaboration across the value chain.

ENGINEERING AND OPTIMISATION EXCELLENCE

Our experts provide engineering consultation and deliver solutions to steer capital project delivery, technology deployment, procurement management development, as well as to enhance asset integrity, reliability and optimisation to achieve operational excellence for top-quartile asset performance. PD&T also provides stewardship on technical standards and solutions by upholding technical governance.

PROCUREMENT AND CONTRACTING EXCELLENCE

PD&T plays a critical role in driving excellence in our procurement and contracting activities. The consolidation of all our procurement functions including planning, governance and services allows us to reap maximum value for the businesses. Having this single line of sight and control across the organisation enables better project delivery, procurement activities and commercially savvy solutions.

PROJECT DELIVERY EXCELLENCE

PD&T aims to deliver projects with world-class performance and top-quartile results for PETRONAS' capital projects and attain project delivery excellence, on time, on budget and on scope. Our predictive and rigorous project control solutions ensure efficient and effective implementation of project management standards, solutions and delivery.

TECHNOLOGY DELIVERY EXCELLENCE

PETRONAS sees technology as key in unlocking new opportunities to amplify value and drive growth for our business. Our technology delivery is anchored on our technology agenda to drive better synergy and bring greater value for the business. PD&T drives this agenda by ensuring a robust technology portfolio management, technology delivery and commercialisation. Having this central advocacy and oversight role allows PD&T to steer PETRONAS' technology agenda in delivering differentiated value from technology whilst safeguarding our Intellectual Properties.

GROUP ORGANISATION STRUCTURE

Information as at March 2018

>> PETRONAS' strong position is a testament to the concerted effort of our people, who have tirelessly rallied behind the leadership team and ensured excellence through Focused Execution.

PRESIDENT AND GROUP CHIEF EXECUTIVE OFFICER

UPSTREAM

DOWNSTREAM

PROJECT DELIVERY AND TECHNOLOGY

CORPORATE STRATEGY

GROUP LEGAL

GROUP HEALTH, SAFETY, SECURITY AND ENVIRONMENT

GROUP INTERNAL AUDIT

GROUP INTEGRITY

V

GROUP FINANCE

GROUP HUMAN RESOURCE MANAGEMENT

GROUP STRATEGIC COMMUNICATIONS

DIGITAL ACCELERATOR

GROUP CORPORATE STRUCTURE

WHOLLY-OWNED SUBSIDIARIES (176)

PETRONAS GROUP OF COMPANIES

PETRONAS Carigali Sdn Bhd
- **PETRONAS Carigali Overseas Sdn Bhd**
  - PC Algeria Ltd
  - PETRONAS Carigali Nigeria Limited (in the process of winding-up)
  - PC Randugunting Ltd
  - PETRONAS Carigali (Ketapang) Ltd
    - PC Ketapang II Ltd
  - PETRONAS Carigali Mozambique E & P Ltd
  - PETRONAS Carigali (Karapan) Ltd (in the process of winding-up)
  - PETRONAS Carigali White Nile (5B) Ltd
  - PC (SE Palung Aru) Ltd (in the process of winding-up)
  - PC Lampung II Ltd
  - PETRONAS Carigali (Australia) Pty Ltd
  - PC Mozambique (Rovuma Basin) Ltd
  - PETRONAS Carigali (Surumana) Ltd
  - PETRONAS Carigali (Oman) Ltd
  - Con Son Joint Operating Company (40%) (in the process of winding-up)
- PC JDA Limited
- E&P Venture Solutions Co. Sdn Bhd
  - E&P O&M Services Sdn Bhd
- E&P Malaysia Venture Sdn Bhd
- Vestigo Petroleum Sdn Bhd

KLCC (Holdings) Sdn Bhd

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

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

PETRONAS Trading Corporation Sdn Bhd
- PETCO Trading (UK) Limited
- PETCO Trading Labuan Company Ltd
- PETCO Trading DMCC
- P.T. PETRONAS Niaga Indonesia

PETRONAS Technical Services Sdn Bhd
- PTSSB DMCC
- PETRONAS Technology Ventures Sdn Bhd
  - PTV International Ventures Ltd
- PETRONAS Global Technical Solutions Sdn Bhd

OGP Technical Services Sdn Bhd

PARTLY-OWNED SUBSIDIARIES (52)

ASSOCIATE COMPANIES (53)

Kebabangan Petroleum Operating Co. Sdn Bhd (40%)
PCPP Operating Company Sdn Bhd (40%)

^ MISC Berhad (62.67%) — ^ Bintulu Port Holdings Berhad (28.52%)

Malaysia LNG Sdn Bhd (90%)
Malaysia LNG Dua Sdn Bhd (80%)
Malaysia LNG Tiga Sdn Bhd (60%)

^ PETRONAS Gas Berhad (60.66%)
- Regas Terminal (Sg. Udang) Sdn Bhd (100%)
- Regas Terminal (Lahad Datu) Sdn Bhd (100%)
- Regas Terminal (Pengerang) Sdn Bhd (100%)
- Kimanis Power Sdn Bhd (60%)
- Kimanis O&M Sdn Bhd (60%)
- Pengerang LNG (Two) Sdn Bhd (65%)
- Pengerang Gas Solutions Sdn Bhd (51%)

Associates of PETRONAS Gas Berhad:
Industrial Gases Solution Sdn Bhd (50%)
Trans Thai-Malaysia (Thailand) Ltd (50%)
- Trans Thai-Malaysia Sukuk Berhad (100%)

Trans Thai-Malaysia (Malaysia) Sdn Bhd (50%)

^ PETRONAS Dagangan Berhad (69.88%)
- PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd (100%)
- PETRONAS Aviation Sdn Bhd (100%) — United Fuel Company Limited Liability Company (40%)
- PDB (Netherlands) B.V. (100%)
  - PETRONAS International Marketing (Thailand) Co. Ltd (100%)
- Kuala Lumpur Aviation Fuelling System Sdn Bhd (65%)

Associates of PETRONAS Dagangan Berhad:
IOT Management Sdn Bhd (20%)
Tanjung Manis Oil Terminal Management Sdn Bhd (20%)
PS Pipeline Sendirian Berhad (50%)
PS Terminal Sendirian Berhad (50%)

Carigali Hess Operating Co. Sdn Bhd (50%)
Carigali-PTTEPI Operating Co. Sdn Bhd (50%)
BC Petroleum Sdn Bhd (20%)

Ophir Production Sdn Bhd (20%)

^ KLCC Property Holdings Berhad (75.46%) ^^

^ Listed on Bursa Malaysia

^^ Equity Interest held directly and indirectly by PETRONAS

WHOLLY-OWNED SUBSIDIARIES (176)

v

PETRONAS GROUP OF COMPANIES (CONTINUED)

PETRONAS International Corporation Ltd

- **SIRRI International Ltd**
- **PETRONAS Carigali Myanmar Inc.**
- **PETRONAS Carigali (Turkmenistan) Sdn Bhd**
- **MITCO Labuan Company Limited (MLCL) (100%)**
  - PCM Chemical India Private Limited (PCMCIPL) *
- **PETRONAS Carigali Nile Ltd**
- **PICL (Egypt) Corporation Ltd**
- **Nada Properties Ltd**
- **PC Madura Ltd**
- **PC Muriah Ltd**
- **PC (Myanmar) Holdings Limited**
  - PC Myanmar (Hong Kong) Limited
- **PETRONAS Carigali Myanmar III Inc.**
- **PETRONAS Carigali (Jabung) Ltd**
- **PETRONAS Myanmar Ltd**
- **PICL Marketing Thailand Ltd**
- **Myanmar PETRONAS Trading Co. Ltd**
- **PETRONAS (Thailand) Co. Ltd**
- **PC Vietnam Limited**
- **PC Mauritania I Pty Ltd**
- **PETRONAS Australia Pty Ltd**
  - PAPL Services Pty Ltd
  - PAPL (Upstream) Pty Ltd
  - PAPL (Upstream II) Pty Ltd
  - PAPL (Downstream) Pty Ltd
- **PC Mauritania II B.V**
- **PETRONAS Philippines Inc**
- **PARSI International Ltd**
- **Argentinean Pipeline Holding Company S.A**
- **PETRONAS (E&P) Overseas Ventures Sdn Bhd (PEPOV)**
  - PETRONAS Iraq Garraf Ltd
  - Natuna 1 B.V.
  - PETRONAS Carigali International E&P B.V. (PCIEPBV) ***
    - PETRONAS Suriname E & P B.V.
    - PC Gabon Upstream S.A.
    - PC Carigali Mexico Oil and Gas Holding S.A. de C.V. (PCCMOGH) ****
      - PC Carigali Mexico Operation S.A. de C.V. (PCCMO) *****
  - PETRONAS Carigali International Sdn Bhd
  - PETRONAS Carigali Iraq Holding B.V
    - PETRONAS Carigali Iraq (Majnoon) Ltd
    - PETRONAS Carigali (Halfaya) Ltd
    - PETRONAS Carigali (Badra) Ltd
  - PETRONAS Brasil E&P Limitada (99%)
  - PETRONAS Angola E & P Ltd
  - PETRONAS China Energy Limited
  - PETRONAS Carigali Canada B.V. (PCCBV)
    - PETRONAS E&P Argentina S.A. (PEPASA) **
    - Progress Energy Canada Ltd (PCCBV)
    - Progress Resources USA Ltd.
  - PETRONAS Azerbaijan Upstream Sdn Bhd
    - PETRONAS South Caucasus S.a.r.l.
    - PETRONAS Azerbaijan (Shah Deniz) S.a.r.l
  - PC Kualakurun Ltd
  - PC North Madura II Ltd
  - PETRONAS Carigali Chad Exploration & Production Inc
    - PETRONAS Carigali (Chad EP) Inc
    - Doba Pipeline Investment Inc
    - PETRONAS Chad Marketing Inc
  - PC Sakakemang Ltd
  - Petroliam Manpower Services Mexico S.A. de C.V, (PMSM) ******

PARTLY-OWNED SUBSIDIARIES (52)

v

SUDD Petroleum Operating Co. Ltd (67.875%)

Pacific Northwest LNG Ltd (62%)

ASSOCIATE COMPANIES (53)

v

Transasia Pipeline Company Pty Ltd (35%)

Petrodar Operating Company Ltd (40%)
Greater Nile Petroleum Operating Company (30%)
DAR Petroleum Operating Co. Ltd (40%)
Greater Pioneer Operating Co. Ltd (30%)

Egyptian LNG Co. S.A.E (35.5%)
El Beherah Natural Gas Liquefaction Company S.A.E (35.5%)
Egyptian Operating Company for Natural Liquefaction Project S.A.E (35.5%)
Burullus Gas Company S.A.E (25%)
Idku Natural Gas Liquefaction Company S.A.E (38%)

Taninthayi Pipeline Co LLC (30%)

PP Oil & Gas Indonesia Holding Ltd (50%)
- PP Oil & Gas (Indonesia – Jabung) Ltd (50%)
- PP (Indonesia Gas Aggregation) Ltd (50%)

PICL Siri Co. Ltd (49%)

Lam Son Joint Operating Company (50%) (in the process of winding-up)

GLNG Property Pty Ltd (27.5%)
GLNG Operations Pty Ltd (27.5%)

South Caucasus Pipeline Holding Co. Ltd (15.5%)
South Caucasus Pipeline Co. Ltd (15.19%)
Azerbaijan Gas Supply Co. Ltd (12.4%)
Shah Deniz Exploration, Development and Production Sharing Agreement (15.5%)

Cameroon Oil Transportation S.A. (29.77%)
Tchad Oil Transportation S.A. (30.16%)

*** 99.99% MLCL, 0.01% PCMSB**
**** 70% PCCBV, 30% PCIEPBV**
***** 30% PEPASA**
****** 99% PCIEPBV, 1% PCCBV**
******* 99% PCCMOGH, 1% PCIEPBV**
******** 99% PEPOV, 1% PCCBV**

WHOLLY-OWNED SUBSIDIARIES (176)

PETRONAS GROUP OF COMPANIES (CONTINUED)

PETRONAS International Corporation Ltd (CONTINUED)

- **PETRONAS Carigali (Urga) Ltd (in the process winding-up)**
- **Labuan Energy Corporation Limited**
  - PSE Ireland Limited
    - PSE Kinsale Energy Limited
    - PSE Seven Heads Limited
  - LEC Ireland Employment Limited
- **PETRONAS Power Sdn Bhd**
  - PETRONAS International Power Corporation B.V.
    - PETRONAS International Power Corporation (Mauritius) Ltd
  - Power and Energy Resources Sdn Bhd
  - Pengerang Power Sdn Bhd
- **PETRONAS LNG Carriers Ltd**
- **PETRONAS LNG Sdn Bhd**
  - PETRONAS Energy (India) Private Limited (99%)
  - PETRONAS LNG (UK) Limited
  - PETRONAS LNG Limited
  - PETRONAS Energy Trading Limited
  - PNW LNG Marketing Sdn Bhd
  - LNG Investments Europe Limited
- **PETRONAS Carigali Brunei Ltd**

PETRONAS Lubricants International Sdn Bhd

- **PLI (Netherlands) B.V. (100%)**
  - PLI Italy SPA (100%)
    - Arexons S.p.A. (100%)
    - PETRONAS Lubricants Great Britain Ltd (100%)
    - FL Nominees (100%)
    - PL Russia LLC (90%)
    - PETRONAS Lubricants Brazil S.A (99.99%)
      - PETRONAS Lubricants Argentina S.A (83.85%)
    - PLNA Mexico S.R.L (99.99%)
    - PETRONAS Lubricants Poland Sp z.o.o (100%)
    - PETRONAS Lubricants Belgium N.V (99.99%)
      - PETRONAS Lubricants France S.A.S (100%)
      - PETRONAS Madeni Yaglar Ticaret Sirketi (100%)
      - PETRONAS Lubricants Deutschland GmbH (100%)
      - PETRONAS Lubricants Netherlands B.V
    - Viscosity Oil Company (100%)
      - PETRONAS Lubricants Spain S.L.U (100%)
        - PETRONAS Lubricants Portugal LdA (99.96%)
- **PETRONAS Base Oil (M) Sdn Bhd (100%)**
- **PETRONAS Lubricants Africa Ltd (100%)**
  - PETRONAS Lubricants (India) Private Limited (99.99%)
  - PLAL DMCC (100%)
    - PLAL Egypt LLC (99.67%)
- **PETRONAS Lubricants China Company Limited (100%)**
  - PETRONAS Lubricants (Shandong) Co., Ltd (100%)
  - PETRONAS Marketing (China) Co. Ltd (100%)
- **PT PLI Indonesia (100%)**
- **PLI Australia Pty. Limited (100%)**

PARTLY-OWNED SUBSIDIARIES (52)

ASSOCIATE COMPANIES (53)

Eastern Sabah Power Consortium Sdn Bhd (30%)

- Voltage Renewables Sdn Bhd (70%)

Pacificlight Power Pte. Ltd (30%)

- Japan Malaysia LNG Co. Ltd (86%)
- Dragon LNG Group (50%)
  - Dragon LNG Ltd (100%)
  - Milford Energy Ltd (100%)

^ PETRONAS Chemicals Group Berhad (64.35%)

- BASF PETRONAS Chemicals Sdn Bhd (40%)
- Kertih Terminals Sdn Bhd (40%)
- Idemitsu SM (Malaysia) Sdn Bhd (30%)
- BP PETRONAS Acetyls Sdn Bhd (30%)
- PRPC Polymers Sdn Bhd (50%)

- PETRONAS Chemicals Marketing ("PCM") Sdn Bhd (100%)
  - PETRONAS Chemicals Marketing (Labuan) ("PCML") Ltd (100%)
  - PCM (Thailand) Company Limited *******
  - PCM (China) Company Limited (100%)
  - PT PCM Kimia Indonesia (99.67%)
- PETRONAS Chemicals Derivatives Sdn Bhd (100%)
- PETRONAS Chemicals Polyethylene Sdn Bhd (100%)
- Vinyl Chloride (Malaysia) Sdn Bhd (100%)
- PETRONAS Chemicals Methanol Sdn Bhd (100%)
- PETRONAS Chemicals Glycols Sdn Bhd (100%)
- PETRONAS Chemicals Ammonia Sdn Bhd (100%)
- Polypropylene Malaysia Sdn Bhd ("PMSB") (100%)
- Kertih Port Sdn Bhd (100%)
- PETRONAS Chemicals Fertiliser Kedah Sdn Bhd (100%)
  - Malaysia NPK Fertilizer Sdn Bhd (20%)
- PETRONAS Chemicals Fertiliser Sabah Sdn Bhd (100%)
- PETRONAS Chemicals MTBE Sdn Bhd (100%)
- PETRONAS Chemicals Isononanol Sdn Bhd (Formerly known as PRPC Glycols Sdn Bhd) (100%)
- PRPC Elastomers Sdn Bhd (100%)
- PETRONAS Chemicals Aromatics Sdn Bhd (70%)
- PETRONAS Chemicals Olefins Sdn Bhd (88%)
- PETRONAS Chemicals LDPE Sdn Bhd (60%)
- PETRONAS Chemicals Ethylene Sdn Bhd (87.5%)
- Asean Bintulu Fertilizer Sdn Bhd (63.50%)

Guangxi Beihai Yuchai Petronas High Quality Lub Co. Ltd. (50%)

Guangxi Nanning Yuchai Petronas High Quality Lub Co. Ltd. (50%)

^ Listed on Bursa Malaysia

******* 99.98% PCM, 0.01% PCML, 0.01% PMSB

WHOLLY-OWNED SUBSIDIARIES (176)

V

PETRONAS GROUP OF COMPANIES (CONTINUED)

PETRONAS Research Sdn Bhd
Primesourcing International Sdn Bhd
Institute of Technology PETRONAS Sdn Bhd
- UTP FutureTech Sdn Bhd (Incorporated on 27 March 2018)

PETRONAS eLearning Solutions Sdn Bhd
PETRONAS Penapisan (Terengganu) Sdn Bhd
PETRONAS Penapisan (Melaka) Sdn Bhd
Malaysia Refining Company Sdn Bhd
PETRONAS Management Training Sdn Bhd
PETROSAINS Sdn Bhd
Sanzbury Stead Sdn Bhd
PETRONAS Capital Limited
PETRONAS Global Sukuk Limited
PETRONAS NGV Sdn Bhd
Energas Insurance (L) Limited
PETRONAS Technical Training Sdn Bhd
PETRONAS LNG 9 Sdn Bhd (80%)
PETRONAS Floating LNG 1 (L) Ltd
PETRONAS Floating LNG 2 (L) Ltd
PETRONAS Refinery and Petrochemical Corporation Sdn Bhd
- PRPC Utilities and Facilities Sdn Bhd
  - PRPC Water Sdn Bhd

PETRONAS Marketing International Sdn Bhd
PETRONAS Energy & Gas Trading Sdn Bhd (PEGTSB)

PARTLY-OWNED SUBSIDIARIES (52)

IndianOil PETRONAS Private Limited (50%)

ENGEN Limited (74%)

ASSOCIATE COMPANIES (53)

PRPC Refinery Cracker Sdn Bhd (50%)
Pengerang Terminal (Two) Sdn Bhd (40%)

OTHER COMPANIES (7)

Shell MDS (Malaysia) Sdn Bhd (6.86%)
Labuan Reinsurance (L) Ltd (10%)
Composites Technology Research Malaysia Sdn Bhd (3.13%)
^ Tenaga Nasional Berhad (0.40%)

Through PETRONAS GAS BERHAD
^ Gas Malaysia Berhad (15%)

Through PETRONAS Technology Ventures Sdn Bhd
LanzaTech New Zealand Limited (3.6%)

Through Petrofibre Network (M) Sdn Bhd
Fiberail Sdn Bhd (10%)

^ Listed on Bursa Malaysia
This chart excludes subsidiary companies of MISC Berhad, KLCC (Holdings) Sdn Bhd and Engen Limited

CORPORATE MILESTONES

Our Journey Began in 1974

The incorporation of PETRONAS on 17 August 1974 under Malaysia's Companies Act 1965.

PETROLIAM NASIONAL BERHAD PETRONAS

PETRONAS' first office with only 18 personnel, at the Prime Minister's Department at Jalan Dato' Onn, Kuala Lumpur.

PETRONAS began operating three skid-tank stations selling kerosene and diesel in Kuala Lumpur and Petaling Jaya to help people during the diesel shortage crisis.

The opening of the first service station in Taman Tun Dr Ismail, Kuala Lumpur.

1974 · 1975 · 1976 · 1977 · 1978 · 1979 · 1980 · 1981 · 1982 · 1983

PETRONAS signed the first Production Sharing Contract (PSC) with Shell to have greater control in managing and developing Malaysia's petroleum resources.

The incorporation of ASEAN Bintulu Fertilizer Sdn Bhd for PETRONAS' downstream ventures.

The incorporation of Malaysia LNG Sdn Bhd (MLNG) in Bintulu, Sarawak signaled PETRONAS' entry into LNG trading.

The incorporation of PETRONAS Carigali Sdn Bhd to actively embark on exploration and production activities.

The incorporation of PETRONAS' first learning institution, the Petroleum Industrial Training Institute (now known as INSTEP).

The development of Peninsular Gas Utilisation (PGU) project to supply natural gas to power industrial and implement commercial sectors throughout Malaysia.

1984 1985 1986 1987 1988 **1989** 1990 **1991** 1992 1993

The incorporation of PETRONAS' principal marketing arm, PETRONAS Dagangan Berhad.

The first oil discovery at the Dulang oil field, offshore Terengganu.

The launch of PETRONAS' Shared Values by the late Tun Azizan Zainul Abidin. It remains an integral value system of all PETRONAS staff.

The first international venture into Vietnam, starting PETRONAS' globalisation journey.

1994

The first discovery at the Ruby oil field, Vietnam, marking PETRONAS' foray as a global player.

The delivery of PETRONAS' first LNG carrier, Puteri Intan, from France to Thailand.

1995

PETRONAS began sponsoring the Red Bull-Sauber PETRONAS Formula One racing team in 1995, gaining access to valuable technological know-how.

The launch of PETRONAS Syntium, a fully synthetic performance lubricant by Red Bull-Sauber PETRONAS Formula One racing team.

PETRONAS began our involvement in exploration and development works in the Melut and Muglad Basins, Sudan.

1996

1997

1998

The launch of the first Malaysian natural gas prototype taxi, the Enviro 2000.

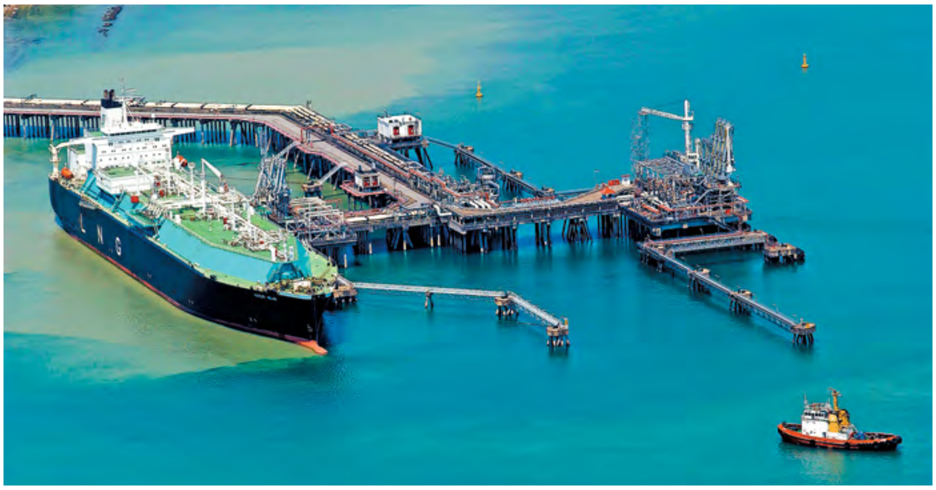
PETRONAS acquired Engen Ltd in South Africa, making it a wholly-owned subsidiary.

1999

The official opening of the PETRONAS Twin Towers by the fourth Prime Minister of Malaysia, YABhg Tun Dr Mahathir Mohamad. It remains the tallest twin towers in the world today.

2000

The launch of PRIMAX, the revolutionary new generation petrol for Malaysian motorists.



2001

The official opening of PETRONAS' Integrated Chemical Complex in Gebeng, Pahang. It encompasses 150 hectares and 12 plants.

2002

The official opening of the PETRONAS Petroleum Industry Complex (PPIC). It is an integrated world-class complex housing a number of world-scale, petroleum-based manufacturing facilities.

2003

The official opening of the PETRONAS LNG Complex in Bintulu, Sarawak. It is the world's largest LNG producer in a single location.

2004

2005

The beginning of the Sabah-Sarawak Integrated Oil and Gas Project (SSIOGP). It aims to transform the landscape of Sabah's oil and gas industry.

2006

2007

The first deepwater oil discovery at the Kikeh oil field, offshore Sabah.

The construction of Malaysia's first Floating Production Storage and Offloading (FPSO) system, Kikeh. It was constructed in over 7.2 million manhours with zero Lost Time Injury.

2008

2009

2010

2011

PETRONAS ventured into the unconventional business through investment in Australia's Gladstone LNG.

The introduction of Risk Service Contracts to encourage the development of marginal fields.

2012

The unveiling of Refinery and Petrochemical Integrated Development (RAPID). The project is greater in scale and scope compared to PETRONAS' Terengganu (Kertih), Melaka and Pahang (Gebeng) complexes combined.

The successful completion of Malaysia's first LNG Regasification Terminal in Sungai Udang, Melaka.

PETRONAS acquired Canada's Progress Energy Resources Corporation, which strengthened our play into unconventional resources.

The first oil production at Gumusut-Kakap, Malaysia's second deepwater field with zero Lost Time Injury.

2013

2014

PETRONAS began operating Malaysia's largest Enhanced Oil Recovery (EOR) project and the first large-scale EOR project in South East Asia, TAPIS EOR. It will help PETRONAS augment reserves and maximise recovery from each field.

The introduction of the industry's first 0W-20 heavy-duty diesel engine oil, PETRONAS Urania Next 0W-20, in Turin by PETRONAS Lubricants International.

The first F1® World Constructors' Championship title won by the Mercedes-AMG PETRONAS Motorsport team.

PETRONAS All About Youth Programme (PAAYP) commenced at 60 schools in Sabah, Sarawak and Terengganu – providing youths with a platform to showcase their ability and creativity.

The implementation of PETRONAS' new business operating model. It features a leaner, flatter and more efficient structure to deal with the deteriorating market environment.

The first gas milestone achieved by the PFLNG SATU from the Kanowit gas field, offshore Sarawak.

The official hull launch of PETRONAS Floating LNG 2 (PFLNG 2) at Samsung Heavy Industries shipyard in Geoje Island, South Korea.

The first delivery of 39 modular-type air fin coolers by ocean-going vessel for PETRONAS' Pengerang Integrated Complex via the Material Offloading Facility in Tanjung Setapa, Johor.

The arrival of the first out of four massive SGT5-8000H gas turbines for PETRONAS' cogeneration power plant in Pengerang from Germany.

The arrival of the tallest and heaviest propylene fractionator process column in Malaysia for the steam cracker facility located within Pengerang Integrated Complex, from Hyundai Mipo Dockyard, South Korea.

2015 **2016**

The launch of the Guangxi Nanning Yuchai PETRONAS Lube Co Ltd Research & Development Centre.

The official steel cutting of PETRONAS' second floating LNG facility in South Korea.

The official keel-laying of PETRONAS' second floating LNG facility in South Korea.

The introduction of PETRONAS Cultural Beliefs, anchored on the Shared Values for a new work culture within the organisation.

RESULTS MATTER	OWN IT!	FOCUSED EXECUTION	NURTURE TRUST	TELL ME	SHARED SUCCESS
I stretch my limits to deliver superior results	I own the results and don't blame others	I plan, commit and deliver with discipline	I always keep my promise and build mutual trust	I seek, give and act positively on feedback	I collaborate for the greater good of PETRONAS

2017

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

23 Jan

PETRONAS LNG Train 9 in Bintulu, Sarawak moved to commercial operations phase.

28 Feb

Saudi Aramco and PETRONAS signed a share purchase agreement for equity participation in PETRONAS' RAPID downstream project in the state of Johor.

3 Apr

The first cargo from the PFLNG SATU loaded onto the LNG carrier, Seri Camellia, destined for the South Asian market.

23 May

Engen Petroleum and PETRONAS Trading Corporation Sdn Bhd (PETCO) signed a one-year fuel oil term contract. This was a testament to our collaboration initiatives to generate greater value across PETRONAS groupwide.

25 Jul

The launch of PETRONAS' Sprinta with Ultraflex™ in Vietnam. The next generation range of motorcycle lubricants is available in three countries, following earlier launches in India and Malaysia.

28 Jul

PTTGL Investment Ltd (PTTGLI) and PETRONAS signed an agreement to take a 10 per cent equity interest in PETRONAS LNG 9 Sdn Bhd, paving the way for further collaboration in the integrated oil and gas value chain.

25 Aug

South Korea's S-OIL and PETRONAS LNG Ltd signed a long-term contract to supply S-OIL with LNG as fuel for its new plant operations and feedstock for hydrogen production for 15 years starting in 2018.

16 Oct

The opening of a country office in Mexico City, which houses PC Carigali Mexico Operations and the Mexico branch of PETRONAS Lubricants International. It marked another international milestone for PETRONAS.

18 Oct

Ecopetrol, Colombia's largest oil company and PETRONAS signed an MoU to collaborate in business opportunities and possibly develop upstream projects in the Americas.

6 Nov

The fourth-in-a-row F1® World Constructors' Championship title won by the Mercedes-AMG PETRONAS Motorsport team.

AWARDS AND RECOGNITIONS

01 NATIONAL ANNUAL CORPORATE REPORT AWARDS (NACRA) 2017

The Awards recognise and highlight the importance of good financial reporting, not only to protect stakeholders' interests, but also to ensure the effective functioning of the capital market.

Petroliam Nasional Berhad (PETRONAS)
- Best Annual Report for Non-Listed Organisations

PETRONAS Dagangan Berhad
- Platinum Award for Best Designed Annual Report
- Certificate Merit

PETRONAS Gas Berhad
- Silver Award for Best Designed Annual Report
- Silver Award for Integrated Reporting Industry Excellence Award for Industrial Products and Technology

02 ASIA PACIFIC OIL AND GAS AWARDS 2017

PETRONAS outperformed other major national oil companies at the 2017 Asia Pacific Assembly and Awards Dinner by receiving two awards.

- Asia Pacific National Oil Company of the Year
- Asia Pacific Innovation of the Year for PFLNG SATU

03 PUTRA BRAND AWARDS 2017

PETRONAS was voted the Gold Award recipient in the 2017 Putra Brand Awards, marking our eighth and fourth-year win for the Automotive Fuel and Lubricants category.

The Award is an honour for PETRONAS as a brand that consistently receives Gold accolades in the Putra Brand Awards. It indicates a strong brand presence and recognition of the PETRONAS brand amongst Malaysians.

04 DUTY OF CARE AWARDS 2017

The Awards recognise organisations and individuals who drive excellence in the mitigation of travel, health and security risks and contribute to effectively protecting workers overseas.

PETRONAS South Sudan Operations received an Honourable Mention Award for Resilient Care.

05 CWC ASIA PACIFIC LNG INNOVATION AWARD

The Award recognises companies operating in the Asia Pacific LNG industry that have excelled in terms of commercial or technical innovation.

PETRONAS received Outstanding Achievement in the LNG Sector for PFLNG SATU.

06 READER'S DIGEST TRUSTED BRAND AWARDS 2017

The PETRONAS Stations' signature one-stop-centre convenience concept has proven to be a popular one as we were voted the Best Petrol Station by Malaysians at the Reader's Digest Trusted Brand Awards. This Award is given solely on customers' nominations conducted in a survey by Malaysia's Reader's Digest readership.

PETRONAS Dagangan Berhad
- Gold Award for Best Petrol Station

07 MINORITY SHAREHOLDER WATCHDOG GROUP (MSWG) – ASEAN CORPORATE GOVERNANCE RECOGNITION 2017

The Award recognises public-listed companies which promote high levels of business transparency and notable corporate governance practices.

PETRONAS Dagangan Berhad
- Industry Excellence Award in the Oil and Gas category
- 2nd Place for Excellence Award for overall corporate governance and performance
- Ranked fourth out of 100 for Excellence Award for corporate governance disclosure

PETRONAS Gas Berhad
- Merit Award for Best Annual General Meeting in overall category and an Excellence Award for Corporate Governance Disclosure with a ranking of 9th

PETRONAS Chemicals Group Berhad
- Excellence Award For Corporate Governance Disclosure

08 31ST INTERNATIONAL ANNUAL REPORT COMPETITION (ARC) AWARDS

The world's largest international competition honouring excellence in annual reports. The Awards promote openness, independence and fairness, and is one of the leading accolades in the Integrated Reporting (IR) industry.

Petroliam Nasional Berhad (PETRONAS)
- Silver Award under the Oil & Gas Production Services, Non-Traditional Annual Report category

PETRONAS Dagangan Berhad
- Gold Award for Interior Design
- Bronze Award for Non-Traditional Annual Report
- Honours Award for Printing and Production

PETRONAS Gas Berhad
- Bronze Winner for Infographics: Oil and Gas Production Services
- Gold Winner for Printing and Production: Oil and Gas Production Services
- Bronze Winner for Non-Traditional Annual Report: Oil and Gas Production Services
- Honours for Cover Photo/Design: Oil and Gas Production Services

09 MALAYSIA SOCIETY FOR OCCUPATIONAL SAFETY AND HEALTH (MSOSH) AWARDS 2017

The Awards recognise companies from various sectors that have performed exceptionally well in occupational safety and health aspects.

PETRONAS Carigali Sdn Bhd
- Gold Merit - Petroleum, Gas Petrochemical and Allied Sectors
  - Sabah Gas Terminal (SBGAST)
  - Sabah Oil & Gas Terminal (SOGT)
  - Labuan Gas Terminal (LGAST)
  - Terengganu Crude Oil Terminal (TCOT)

- Gold Class 1 - Petroleum, Gas Petrochemical and Allied Sectors
  - Onshore Gas Terminal (OGT)
  - (Sarawak Oil Malaysia Asset) Miri Crude Oil Terminal
  - (Sarawak Gas) - Bintulu Integrated Facility
  - Angsi Platform
  - Onshore Slugcatcher (OSC)

PETRONAS Dagangan Berhad
- Gold Merit
  - Melaka Fuel and LPG Terminals
- Gold Class I
  - Prai Fuel and LPG Terminal
  - Kuantan Fuel Terminal
  - Kertih Fuel and LPG Terminal
  - Pasir Gudang Fuel and LPG Terminal
  - Labuan Fuel Terminal
  - Sandakan Fuel Terminal
  - Bintulu LPG Terminal
  - KLIA KAFS Terminal
  - KLIA FFB Terminal
  - Bayan Lepas Aviation Terminal
  - Kota Kinabalu Aviation Terminal
  - Senai Aviation Terminal
- Gold Class II
  - Lumut Fuel Terminal
  - Sepagar Bay Fuel and LPG Terminal
  - Kuching Aviation Terminal
- Silver
  - Subang Aviation Terminal

PETRONAS Chemicals Group Berhad
- Gold Class 1
  - PETRONAS Chemicals Ethylene Sdn Bhd
  - PETRONAS Chemicals LDPE Sdn Bhd
  - PETRONAS Chemicals Ammonia Sdn Bhd
  - PETRONAS Chemicals MTBE Sdn Bhd

PETRONAS Gas Berhad
- Gold Class 1 – Utilities Sectors
  - PETRONAS Gas Processing Kertih

PETRONAS Penapisan Terengganu Sdn Bhd
- Gold Class 1

10 ROYAL SOCIETY FOR THE PREVENTION OF ACCIDENTS (ROSPA) OCCUPATIONAL HEALTH AND SAFETY AWARDS 2017

The Awards recognise excellence in work-related health and safety performance by private and public sector organisations.

Gold Award
PETRONAS CHEMICALS GROUP BERHAD
- ASEAN Bintulu Fertilizer Sdn Bhd
- PETRONAS Chemicals Ethylene Sdn Bhd

PETRONAS GAS BERHAD
- Utilities Plant Gebeng
- Tanjung Sulong Export Terminal
- Gas Processing Plants Santong
- Utilities Plant Kertih

Sector Award
PETRONAS Chemicals Ammonia Sdn Bhd received Highly Commended Award

11 CHEMICAL INDUSTRIES COUNCIL OF MALAYSIA (CICM) RESPONSIBLE CARE AWARDS 2017

The Awards recognise organisations that have made notable progress in implementing the Responsible Care's Six Codes of Management Practices in Malaysia.

PETRONAS Chemicals Group Berhad

- One Platinum, seven Gold, 13 Silver and one Merit Award

PETRONAS Penapisan Terengganu Sdn Bhd

- Merit Award

12 INTERNATIONAL CONVENTION ON QUALITY CONTROL CIRCLE (ICQCC) 2017

The Award recognises and highlights the successful implementation of quality, productivity or customer satisfaction improvement projects through innovation and systematic approaches.

PETRONAS Chemicals Berhad

- Six Gold Awards

13 PRIME MINISTER'S HIBISCUS AWARD 2017

The Award is a premier recognition honouring commitment towards upholding environmental protection.

Exceptional Award under the Environmental Performance

- PETRONAS Chemicals Ammonia Sdn Bhd
- PETRONAS Penapisan Terengganu Sdn Bhd
  - Gas Processing Kertih
  - Gas Processing Santong
  - Utilities Kertih

Special Project Award for Sustainable Water Management – Gold Award

- Utilities Kertih

Notable in Environment Achievement

- PETRONAS Chemicals Ethylene Sdn Bhd

14 INSTITUTION OF CHEMICAL ENGINEERS (ICHEME) MALAYSIA AWARDS 2017

The Awards celebrate excellence, innovation and achievement in the chemical, biochemical and process industries.

PETRONAS Ammonia Sdn Bhd

- The Highly Commended Award in the Training and Development Award Category

PETRONAS Chemicals Olefins, Glycols and Derivatives Sdn Bhd

- The Young Industrial Award

15 MALAYSIAN INSTITUTE OF CHEMISTRY LABORATORY EXCELLENCE AWARD 2017

The Awards are designed to ensure laboratories demonstrate strong commitment in providing quality and competent testing services in the fields of health, safety and the environment.

PETRONAS Chemicals Ammonia Sdn Bhd

- Three Excellence Awards under the Water and Wastewater, and Petroleum and Petroleum Products categories

16 THE BRANDLAUREATE MOST SUSTAINABLE BRAND AWARDS 2016/2017

The Awards are designed to educate and communicate the value of branding, with the concept that brand culture combined with good practices will give Malaysia the edge amongst the world's advanced nations.

PETRONAS Lubricants International Sdn Bhd

- An Excellence Award in Manufacturing – Automotive and Industrial Lubricants

17 LABORATORY PRESIDENT AWARD 2017

The Award is the highest accolade for laboratories which demonstrate continual excellence in laboratory practices.

Melaka Refining Company Sdn Bhd

- Laboratory President Award 2017

18 INSTITUT TEKNOLOGI PETROLEUM PETRONAS (INSTEP) STUDENT AND ACADEMIC TEACHING EXCELLENCE

INSTEP is a state-of-the-art technical training institute that aims to accelerate human capital development to support the growth of PETRONAS as well as Malaysia's oil and gas industry.

- Two Gold and one Bronze Awards at the Minggu Penyelidikan & Inovasi, Kuala Terengganu
- Outstanding PEARSON Learner Award
- Human Resource Development (HRD) Award for Data & Analytics

19 MALAYSIA'S 100 LEADING GRADUATE EMPLOYERS AWARDS 2017

Winner for the Most Popular Graduate Employer in the Energy/Oil and Gas/Utilities 2017

20 JOBSTREET.COM TOP 10 COMPANIES AWARD 2017

Runner-up for the Most Preferred Employer at the Jobstreet.com Top 10 Companies 2017 Award

21 RANDSTAD AWARD 2017: EMPLOYER BRAND AWARD

Runner-up for the Most Attractive Employer

22 ALPHA SOUTHEAST ASIA ANNUAL INSTITUTIONAL INVESTOR AWARDS FOR CORPORATES

PETRONAS Chemicals Group Berhad
- Best Strategic Corporate Social responsibility Winner

23 ANUGERAH SUMBANGSIH 2017 FROM KEDAH STATE EDUCATION DEPARTMENT

PETRONAS Chemicals Group Berhad
for its unwavering commitment to improve the academic performance of school children in Kedah

24 MALAYSIAN PRODUCTIVITY CORPORATION (MPC) ANNUAL PRODUCTIVITY & INNOVATION CONFERENCE AND EXPOSITION (APIC)

Best Overall Team Excellence Award Winners – Manufacturing Sector
- PETRONAS Chemicals LDPE Sdn Bhd
- PETRONAS Chemicals Olefins Sdn Bhd
- PETRONAS Chemicals Ethylene Polyethylene Sdn Bhd
- PETRONAS Chemicals Methanol Sdn Bhd
- PETRONAS Penapisan (Terengganu) Sdn Bhd
- PETRONAS Gas Berhad

Piala Ketua Pengarah MPC 2017
- Petroliam Nasional Berhad (PETRONAS)

25 CHIEF MINISTER'S ENVIRONMENTAL AWARD (CMEA)

The award recognise organisations and municipal councils for their efforts in conserving and preserving the environment.

ASEAN Bintulu Fertilizer Sdn Bhd
- Winner for Chief Minister's Environmental Award 2016

26 PERKESO & BOOKDOC ACTIV@WORK 2017 CHALLENGE

The programme aims to encourage employers to help their employees to stay active.

Large Companies Category
Champion: Petroliam Nasional Berhad (PETRONAS)

MEDIA HIGHLIGHTS

23 JAN 2017

MALAYSIAN RESERVE, MALAYSIA

MISC sees delivery of LNG carrier

01 MAR 2017

BORNEO POST SARAWAK, SARAWAK

State to tap marginal oilfields

Local companies urged to exploit small pool reserves before going into bigger operations

27 MAR 2017

MALAYSIAN RESERVE, MALAYSIA

Perfect Partner

23 JAN 2017

THE NEW STRAITS TIMES, MALAYSIA

LOCAL AUTHORITY

PENGERANG WILL BOOST GROWTH IN EAST JOHOR

It will ensure that rapid development in the region is organised, safe and sustainable

DATUK SERI MOHAMED KHALED NORDIN

22 FEB 2017

THE NEW STRAITS TIMES, MALAYSIA

THE RIGHT CUT

PETRONAS COST-CUTTING

'MEASURES PRODUCING RESULTS'

Cutting capex by RM50b, other initiatives have led to stronger financial position

01 MAR 2017

MALAYSIAN RESERVE, MALAYSIA

(From left) Nasser, Al-Falih, Abdul Rahman and Wan Zulkiflee at the signing ceremony yesterday. — Picture by Zuraneeza Zulkifli

Aramco inks RM31b deal with Petronas for Rapid stake

by Ushar Danlele
ushar@mmail.com.my

KUALA LUMPUR — Petroliam Nasional Bhd (Petronas) and its Saudi counterpart Saudi Arabian Oil Company (Aramco) signed a US$7 billion (RM31.1 billion) share purchase agreement (SPA) for the latter to acquire a 50% stake in Petronas' Refinery and Petrochemical Integrated Development (Rapid) refinery and cracker assets in Johor.

"The partnership brings together two organisations with strong reputations, wealth of operational experience and proven record in developing mega projects, as well as having commercial network in different markets, globally," Petronas president and group chief executive officer Datuk Wan Zulkiflee Wan Ariffin said after inking the deal with Aramco president and chief executive officer Amin H Nasser here yesterday.

Upon the completion of the transaction, subject to regulatory approvals and the completion of other associated agreements, both partners will hold equal ownership in selected ventures and assets of the Rapid project within the Pengerang Integrated Complex (PIC).

Under this partnership, Saudi Aramco will supply up to 70% of the crude feedstock requirements of the refinery with natural gas, power and other utilities supplied by Petronas.

"Malaysia offers tremendous growth opportunities and today's agreement further strengthens Aramco's position as the leading supplier of petroleum feedstock to Malaysia and Southeast Asia, and with Rapid's strategic location in a prolific hub, it would also serve to enhance energy security in the Asia-Pacific region.

"Together with Malaysia, the Southeast Asia region offers tremendous growth opportunities," Nasser said.

Prime Minister Datuk Seri Najib Razak and Saudi Arabia's King Salman Abdulaziz Al Saud witnessed the ceremony. Also present were Saudi Arabia's Energy, Industry and Mineral Resources Minister, Aramco chairman Khalid A. Al-Falih and Malaysia's Urban Wellbeing, Housing and Local Government Minister Datuk Abdul Rahman Dahlan.

Wan Zulkiflee said the quantum of investment will come a year after the signing upon completion of all the necessary regulatory approvals.

"We have a long stock deal with the SPA and the investment will come a year after the signing," he told reporters yesterday.

He added that Malaysia now has long-term crude supply security because Saudi Arabia is the world's biggest exporter in of crude oil.

The Rapid refinery has a capacity to refine 300,000 barrels of crude per day, as well as a host of refined petroleum products, including gasoline and diesel which meets Euro 5 fuel specifications.

It can also produce feedstock for its integrated petrochemical complex, with an output of 3.5 million tonnes per annum of products.

Apart from Rapid, which comprises the refinery, cracker and the downstream petrochemical complex, the PIC, located on a 6,242-acre site, also includes the development of associated facilities such as a cogeneration plant, a liquefied natural gas regasification terminal, a raw water supply project, a deep water terminal, as well as centralised and shared utility facilities.

Wan Zulkiflee said there is no risk to Malaysian interest in partnering with Aramco through the RM31.1 billion SPA as the refinery and cracker projects are only a portion of PIC.

"I don't see any risk in terms of Malaysia's interest as we are both national oil

20 APR 2017

BORNEO POST SARAWAK, SARAWAK

Petronas Dagangan registers record profit in 34 years

KUCHING: PETRONAS Dagangan Berhad (Petronas Dagangan) wrapped up the financial year ended December 31, 2016 with a record profit before tax of RM1.21 billion, an increase

in the country with more than 1,000 stations, maintaining its position as the leading petroleum retailer. The firm also expanded the availability of Petronas Primax 97 and Petronas Dynamic Diesel

01 MAY 2017

NEW SARAWAK TRIBUNE, SARAWAK

Petronas opens newly expanded lubricant plant in China's Shandong

KUALA LUMPUR: Petronas Lubricants International (PLI) recently launched the newly expanded lubricant-blending plant in the Weifang Economic Development Zone in Shandong, China, to meet the market's growing demand for premium lubricant products and high-quality services.

The comprehensive expansion project, which was carried out in phases, saw the upgrade of the plant's production capacity, production lines and storage facilities, bolstering the company's ability to serve the booming Chinese market.

Petronas President and Group CEO, Datuk Wan Zulkiflee Wan Ariffin who officiated the new plant said, "The second phase expansion at our Shandong plant adds much-needed production capacity that will help us meet the soaring demand for our products.

"Naturally, this will also infuse our marketing and sales operations with a major boost of new energy to pull away from the pack. This strategic expansion of our footprint in China reflects the great importance we attach to our local customers here as well as our confidence in Petronas' prospects for future growth in the Chinese market."

The plant's officiating ceremony was also attended by Petronas Executive Vice President and CEO of Downstream Business, Md Arif Mahmood; Petronas Lubricants International (PLI) Group CEO, Giuseppe D'Arrigo and PLI Head of Regional Business (Greater China), Mark Gau.

In order to optimize services and offer customers a complete range of premium solutions, Petronas has invested RMB600 million (RM 384 million) to expand the plant's footprint to 21,000 square metres to now include an automated, hi-tech lubricant blending line as well as additional storage tanks.

The plant's annual output is expected to increase from 45,000 to 150,000 tonnes, covering a wide range of automotive lubricants, anti-freeze liquids, industrial lubricants and greases.

The expansion also saw an upgrade of the plant's warehouse facilities to enhance capabilities for storage, transportation, local distribution and overseas export.

Improving the capabilities of the Shandong Plant not only allows for increased production capacity to satiate consumer demands, it is also testament to Petronas' commitment to the rapidly developing Chinese market.

Aside from lubricants production, Petronas is also actively growing its liquefied natural gas (LNG) business while looking to expand the LNG volume supply to its existing buyers in the country.

07 JUN 2017

BORNEO POST SARAWAK, SARAWAK

353 students receive educational sponsorships from Petronas

KUCHING: Petronas recently awarded education sponsorships to 353 deserving students to pursue tertiary education in various disciplines following outstanding performances in the 2016 Sijil Pelajaran Malaysia (SPM) examinations.

The education sponsorships worth RM134 million awarded under the Petronas Education Sponsorship Programme (PESP) testify to Petronas'

will receive their education sponsorships at three other presentation ceremonies to be held next month in Kuching, Kota Kinabalu and Kuala Terengganu.

PESP was first introduced in 1975, a year after Petronas was established. It is now firmly part of Petronas' larger corporate social investment in the field of education.

Addressing the students, Anuar said: "Today, you will be walking

society and supporting the nation's pursuit of progress.

"The workforce of the future would be expected to be resourceful, technically-competent and digitally-advanced.

"What will make one stand out will be flexibility, resilience and agility to withstand the challenges of working life and thrive as winners," he said.

Under PESP, sponsorships are granted annually to deserving

11 JUL 2017

UTUSAN MALAYSIA, MALAYSIA

PCG yakin Samur sumbang 15% kapasiti

Oleh AFIQ MOHD. SHAH

■ KUALA LUMPUR 10 JULAI

PETRONAS Chemicals Group Berhad (PCG) mengunjurkan projek loji Sabah Ammonia Urea (Samur) akan menyumbang sebanyak 15 peratus kepada pertumbuhan kapasiti syarikat tersebut menjelang penghujung tahun kewangan 2017.

Pengarah Urusan dan Ketua Pegawai Eksekutif PCG, Datuk Sazali Hamzah berkata, projek yang terletak di Taman Perindustrian Minyak dan Gas, Sipitang, Sabah itu telah pun mencapai kapasiti reka bentuk penuh dan berjalan dengan stabil.

Jelas beliau, projek Samur ketika ini menyumbang kira-kira 10 peratus kepada pendapatan PCG.

"Samur telah berjaya mencapai kapasiti penuh iaitu sekitar 100 hingga 102 peratus dan boleh mula menyumbang kepada pertumbuhan syarikat menjelang suku kedua tahun ini seperti dalam perancangan asal PCG.

"Prestasi kewangan suku pertama tahun ini yang cemerlang juga menjadi penanda aras kepada kami memandangkan PCG telah berjaya mencapai 99 peratus kadar penggunaan loji (PU), jadi bergantung kepada harga minyak mentah dunia, kami yakin dapat mencapai sasaran awal," katanya kepada pemberita dalam majlis rumah terbuka Aidilfitri PCG di sini hari ini.

Projek Samur terletak di kawasan tepi pantai kira-kira 15 kilometer dari pekan Sipitang, bernilai A$$1.9 bilion (RM8.16 bilion) yang berupaya menghasilkan ammonia sebanyak 740,000 metrik tan setahun (mtpa) dan baja urea sebanyak 1.2 juta metrik tan setahun (mtpa).

Yang turut hadir pada majlis berkenaan ialah Naib Presiden Eksekutif dan Ketua Pegawai Eksekutif, Perniagaan Hiliran,

SAZALI HAMZAH

Petroliam Nasi[onal] Bhd. (Petronas), Arif Mahmood; K[etua] Pengarang Kump[ulan] Utusan, Datuk A[bdul] Aziz Ishak dan Ti[mba]lan Ketua Penga[rang] Kumpulan, Datuk [...]man Mohamad.

Dalam pada [...] Sazali berkata, pi[...]nya dalam pr[...] penilaian kira-[kira] lima syarikat yang berminat [un]tuk melabur dalam Projek P[em]bangunan Bersepadu Penap[isan] Minyak dan Petrokimia (RA[PID]) di Pengerang, Johor.

Beliau berkata, PCG tidak m[...]takan had masa bagi menyel[esai]kan proses penilaian dan pelab[uran] kerana projek berkenaan akan t[...] berjalan seperti yang dirancang.

"PCG juga tidak meletak[kan] syarat sama ada pelaburan b[...] dilakukan oleh syarikat temp[atan] atau antarabangsa asalkan m[ere]ka boleh memberi nilai tam[bah] kepada projek RAPID dan PCG [se]cara amnya," katanya.

11 AUG 2017

MALAYSIAN RESERVE, MALAYSIA

Petronas allocates RM735m capex to boost its market in India

by IZZAT RATNA

PETROLIAM Nasional Bhd (Petronas) is allocating some RM735 million in capital expenditure (capex) to increase its market presence in India through its subsidiary, Petronas Lubricants International Sdn Bhd, over the next five years.

The investment includes the building of a RM245 million lubricant blending plant with a 110 million-litre capacity in Patalganga, India, that is slated for completion in the first-quarter of 2018.

The state-owned Malaysian oil and gas firm's CEO Datuk Wan Zulkiflee Wan Ariffin said that this investment is in line with the Indian government's "Make in India" transformation initiative.

"We are aiming to triple our market share in India's lubricant market by 2022. Globally, we are among the top 10 lubri-

pave the way for a stronger cooperation for the mutual benefits," he said in a statement yesterday.

The expansion was sparked by the growth and performance of Petronas' liquefied petroleum gas (LPG) joint venture with Indian Oil Corp Ltd, which currently owns LPG bottling terminals in Haldia, West Bengal, and in Ennore, Tamil Nadu.

With more than two decades of strategic partnerships in India, Wan Zulkiflee said Petronas is enhancing its business strategy to strengthen and expand its presence in the world's fastest-growing economy.

He added that Petronas' annual visit to meet India's industry leaders and partners was expected to expand the firm's LNG supply in the country to help meet the rising demands from the power, agriculture and trans-

We are aiming to triple our market share in India's lubricant market by 2022, says Wan Zulkiflee

tonnes of paraxylene.

To date, the company has delivered 15 LNG cargoes to India. Recently, it delivered the first cargo produced from its floating LNG production facility to the country.

Petronas' strategic partnerships in India have also resulted in successful advances in the marketing and trading

affluence that will see the increased demand for consumer products.

In 2016, India made up over 100,000 tonnes of Petronas' petrochemicals sales volume.

With over 30 million tonnes per annum supply capacity, Petronas is currently the third-largest LNG player globally.

The company hopes to further contribute to the energy needs of India, which is the fourth-largest LNG market in the world.

Leveraging on its long history and sterling reputation in the global LNG business, Petronas has the added advantage to provide tailor-made solutions across the LNG value chain such as flexibility, engineering expertise and experience in operations management.

India's robust growth trajectory and thriving demand for consumer products as well as clean energy to fuel it growth

18 AUG 2017

THE STAR, MALAYSIA

Petronas tougher on costs, focuses more on downstream

KUALA LUMPUR: When Datuk Wan Zulkiflee Wan Ariffin took over as CEO of national energy firm Petronas in April 2015, the price of a barrel of Brent crude oil had tumbled to around US$55, half the level of the previous year.

Over the following months prices fell further, forcing Wan Zul, as he is better known, to lop US$12bil from costs and cut thousands of jobs for the first time at Petronas – a major contributor to Malaysia's budget and one of the country's biggest employers.

As he enters the final year of his three-year contract, he says Petronas is leaner and better placed to handle a volatile oil market, focusing on costs, high-margin businesses and possibly new growth streams such as renewables. "The lower prices gave us an opportunity, a compelling reason to do many things differently," Wan Zul, 57, told Reuters. "We've got to change according to the times... I wouldn't discount a different (product) portfolio moving forward, maybe look at renewables. We've got to adapt."

He gave no details of what kind of renewable investments Petronas was looking at, but for now the focus – and much of the capex budget – is on the downstream business.

That means the Refinery and Petrochemical Integrated Development (Rapid) complex in Johor, an ambitious US$27bil project in an area strategically located between the Malacca Strait and the South China Sea, conduits for Middle East oil and gas bound for China, Japan and South Korea.

"Rapid will provide us a bigger downstream portfolio. So it will be more balanced," Wan Zul said. "Downstream gives us the bottom-line contribution. It gives us a natural hedge."

Rapid contains a 300,000 barrel-per-day oil refinery and a petrochemical complex that will be able to produce 7.7 million tonnes a year. Earlier this year, Saudi

Plant on track: Wan Zulkiflee says the Rapid refinery is on track for startup in 2019. — Reuters

Aramco agreed to buy a US$7bil stake in it.

While the project has had some delays as lower oil prices kept investors away, Wan Zul said the refinery is on track for start-up in 2019, with petrochemical operations to follow six to 12 months afterwards.

The downstream focus comes as analysts predict Petronas will produce less oil in future. Malaysia's oil production has declined over the past decade and Petronas has scaled back its international plans. "Petronas would be okay (until) the end of the decade, but afterwards (oil) production is set to decline," said Maxim Petrov, senior analyst at Wood Mackenzie. "That's what we identify as the biggest gap in its portfolio, oil. They are very gas focused." Petronas recently won three oil and gas blocks in Mexico, and is studying oilfields in Iran.

Wan Zul, joined Petronas in 1983 as a process engineer, and worked his way up through the ranks to CEO – a prime ministerial appointment – including a three-year stint as head of the downstream business.

He would not be drawn on what he does next, and whether he might seek to stay on when his term ends in March. "Time flies when you're having fun," he said.

It was probably less fun when he took over.

Besides cutting jobs and the capex budget, Wan Zul pruned back the dividends Petronas pays to its sole shareholder, the Malaysian government. This year's expected payout of around RM13bil will be around half what it paid in 2015. "In a tough environment that would be the logical course of action he had to take," said Subbu Bettadapura, senior director for energy and environment, Asia Pacific, at Frost and Sullivan, adding that with oil prices still below US$60 a barrel, Petronas and others still have to keep costs in check in order to be profitable.

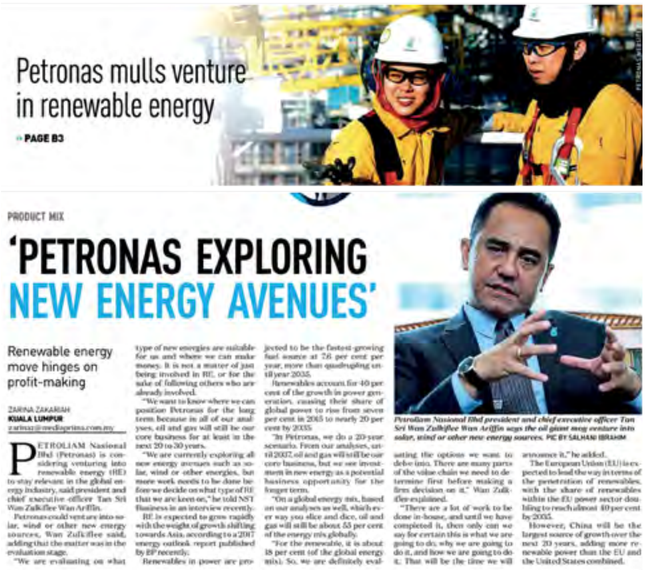
"(They should) increase efficiency and control the capex (and) opex, then they should be in a good position," he added, referring to capital and operating expenditure.

Wan Zul says a cost optimisation effort he launched – known as Project Cactus after that plant's resilient nature – has already saved Petronas RM7bil, on top of the capex cuts.

"Whether crude is at US$80 or US$40, every dollar counts. That's the mindset I want the organisation to have," he said. — Reuters

26 SEP 2017

THE NEW STRAITS TIMES, MALAYSIA



Petronas mulls venture in renewable energy

PAGE B3

PRODUCT MIX

'PETRONAS EXPLORING NEW ENERGY AVENUES'

Renewable energy move hinges on profit-making

18 NOV 2017

BORNEO POST SARAWAK, SARAWAK

Petronas receives first commercial cargo at its regasification terminal in Pengerang

KUALA LUMPUR: Petronas Gas Bhd (PGB) received the first commercial Liquefied Natural Gas (LNG) cargo recently for its newly-commissioned Regasification Terminal Pengerang (RGTP) in Pengerang, Johor.

RGTP, also known as RGT2, is PGB's second regasification facility to commence operation after its first facility situated in Sungai Udang, Melaka. The LNG cargo belonging to Petronas was delivered to the RGTP by MISC Bhd's LNG vessel, Seri Begawan.

Speaking on the momentous occasion, Managing Director/chief executive officer of PGB, Kamal Bahrin Ahmad, who is also chairman of PLNG2 Sdn Bhd said, "The commencement of the commercial operations of RGTP on November 1, 2017 marks a very significant growth milestone for PGB. It strengthens our Regasification business segment and will provide additional revenue stream to PGB."

Prior to this, the RGTP has received three commissioning cargoes on September 1, 2017, September 23, 2017 and October 17, 2017," he added.

The RGTP is built to provide primary gas supply to the refinery and petrochemical plants, as well as Pengerang Cogeneration Plant in the Pengerang Integrated Complex, and to the Peninsular Gas Utilisation system, to augment the availability of gas in the country.

The RGTP delivered the first gas to the PGU pipeline on 15 September 2017.

The RGTP consists of an LNG regasification unit with a total capacity of 3.5 MTPA (or 490 mmscfd); two units of 200,000m3 LNG storage tanks; and a jetty which can receive up to 90 LNG standard to Q-Max carriers per year.

The facility is operated by Pengerang LNG (Two) Sdn Bhd. PGB owns 65 per cent share in Pengerang LNG (Two) Sdn Bhd, while the remaining shares are held by Dialog LNG Sdn Bhd (25 per cent) and Permodalan Darul Takzim (10 per cent). — Bernama

RGTP, also known as RGT2, is PGB's second regasification facility to commence operation after its first facility situated in Sungai Udang, Melaka. The LNG cargo belonging to PETRONAS was delivered to the RGTP by MISC Bhd's LNG vessel, Seri Begawan.

19 OCT 2017

THE NEW STRAITS TIMES, MALAYSIA

Collaborate more, Petronas urges LNG industry players

PAGE B3

LNG INDUSTRY

Petronas CEO calls for more tie-ups

KUALA LUMPUR: National oil firm Petroliam Nasional Bhd (Petronas) has warned that the liquefied natural gas (LNG) industry may stagnate if players do not make efforts for more collaboration.

"Today, players are cancelling and delaying projects in tandem with the LNG prices. Without sufficient investments, both buyers and sellers face an uncertain future in terms of business sustainability and energy security," said president and group chief executive officer Tan Sri Wan Zulkiflee Wan Ariffin.

Speaking at the LNG Producer-Consumer Conference 2017 in Tokyo, he urged all parties to engage in early collaboration and work towards mutually-favourable market conditions to encourage investments for business longevity and long-term supply stability.

"While current market dynamics are not encouraging conversations about sustainable gas pricing, it is in our interest, both as sellers and buyers, to bring this up," he said.

"Although buyers' considerations remain in our best interests, the current market volatility necessitates the security of demand. This is imperative for the producers to continue investing to support the upstream and LNG value chain in a timely manner."

Wan Zulkiflee said the reason Petronas, currently the world's third-largest LNG producer, did not proceed with its proposed LNG project in Canada was due to the prolonged depressed prices and unfavourable market conditions.

Nevertheless, he acknowledged that the current market dynamics had stimulated internal efficiency improvements that had provided Petronas with better agility as an integrated end-to-end LNG player to accelerate growth once the industry was on an upturn.

"With deeper resource pools, we are able to invest in people, technology and innovation to provide energy solutions that go beyond just selling and delivering LNG.

"Through these investments, we aspire to help create a more sustainable LNG market that is able to fuel the world's economies," he said.

Petronas recently celebrated its 10,000th cargo from its Bintulu LNG Complex that was delivered to Japan on October 4.

Petronas president and CEO Tan Sri Wan Zulkiflee Wan Ariffin

24 NOV 2017

THE NEW STRAITS TIMES, MALAYSIA

RISING OPTIMISM

PETROLIAM Nasional Bhd is poised for higher full-year earnings due to improvement in oil prices and strong quarterly gross domestic product growth, say analysts. The group's net profit and revenue surged to RM10 billion and RM53.7 billion, respectively, in the third quarter of this year.

PAGE B2

FINANCIAL PERFORMANCE

'PETRONAS SET FOR STRONG YEAR-END'

Higher oil prices, economic growth will boost company earnings, say analysts

Analysts say oil prices have been on an upward trend, hitting US$63 (RM259) per barrel currently from a low of US$46 per barrel in June.

12 SEP 2017
THE SUN, MALAYSIA


6 honoured with Merdeka Awards

15 OCT 2017
NEW SABAH TIMES, SABAH


Plight of Balambangan children being looked into by Petronas

By PAUL MU

03 FEB 2017
THE STAR, MALAYSIA


Petronas' web-film a tribute to our harmonious society

10 NOV 2017
UTUSAN SARAWAK, SARAWAK


Petronas bawa sinar kepada murid pedalaman

peruntuk RM1.3 juta untuk program Outreach SK Ulu Pelagus

14 SEP 2017
UTUSAN MALAYSIA, MALAYSIA


1,000 pelajar tingkatan empat sertai Petronas *All About Youth*

10 FEB 2017
UTUSAN BORNEO SABAH, SABAH


Petronas labur RM18 juta

Program Pelaburan Sosial Korporat

"Tiga inisiatif itu adalah 'Program Planting Tomorrow', 'Food Basket' dan Pembangunan Belia yang akan dilaksanakan dengan kerjasama beberapa organisasi"

DATUK SERI PANGLIMA MUSA HAJI AMAN
Ketua Menteri

24 DEC 2017
BORNEO POST SABAH, SABAH


Some of the volunteers involved in the mangrove rehabilitation programme. Also in the picture is Petronas General Manager of Upstream Strategic Communications and Administration, Shuzairin Shuib (third left).

2,000 mangrove saplings planted at wetland conservation area

TUARAN: About 2,000 new mangrove saplings line the wetland conservation area of Kampung Penampang Baru following the launch of

The event was participated by over 120 volunteers from SBGAST and Petronas' Carigali Sdn Bhd (Sabah Assets) together with the local community,

Investment effort focusing on environmental conservation," she said.

"Wherever we are, Petronas places equal importance on

03 JUN 2017
UTUSAN MALAYSIA, MALAYSIA


Vendor terima banyak manfaat daripada TGAST

SECTION II

STRATEGIC REPORTS

WE ARE RELENTLESS TO BECOME A LEADING OIL AND GAS MULTINATIONAL OF CHOICE

We present a comprehensive review of our achievements and future direction to enable our stakeholders to assess our performance and the challenges ahead.

LETTER FROM THE CHAIRMAN

>> The journey was far from easy but we have proven once again that together, we are able to persevere and emerge stronger!

TAN SRI MOHD SIDEK HASSAN

>> Chairman

DEAR STAKEHOLDERS,

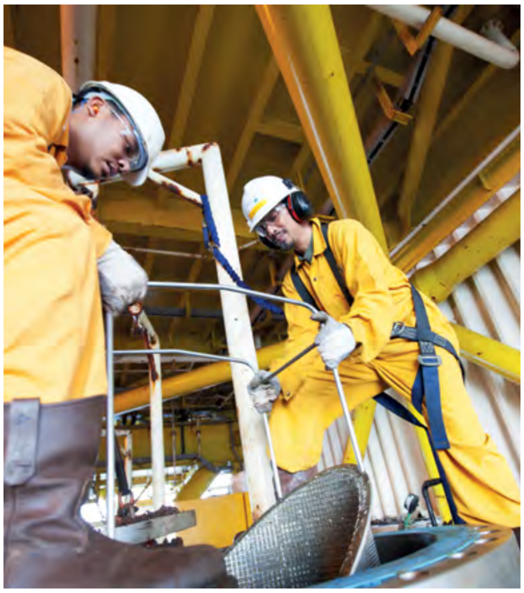
2017 unfolded many extraordinary strides and I would like to first and foremost pay tribute to the formidable force that has enabled PETRONAS to conclude the year strongly. A force made up of solid foundations laid by our founding fathers, the vision steered by our leaders, the commitment of our people, and the trust given by our stakeholders. The journey was far from easy but we have proven once again that together, we are able to persevere and emerge stronger!

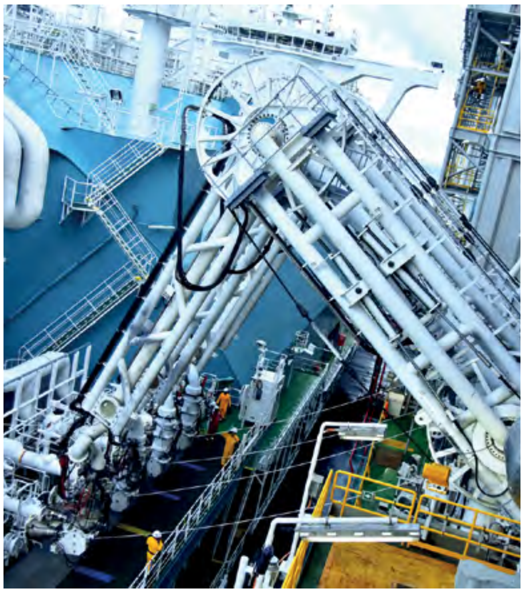
2017 IN REFLECTION

PETRONAS undertook various transformative initiatives groupwide since 2015 to address the reality of prolonged low oil prices in order to ensure its resilience and long-term sustainability. This shift in paradigm presents with it a stream of possibilities, risks as well as potential growth. Through transformation of the mind and action, both individually and collectively, one is open to a vast horizon of opportunities that will definitely disrupt the status quo. The overall momentum of the transformative journey has placed us in a better position today amidst the oil and gas crisis, but also fortified us in embracing the future with ardour.

We pursued the journey of finding solutions to the questions that we ourselves posed. The Board of Directors and the Executive Leadership Team (ELT), have asked questions from “how do we transform what doesn’t work?” to the even harder question, “how do we transform what has worked perfectly well in the past?”

With the already disruptive nature of Industrial Revolution 4.0 impacting various brick and





mortar industries, it is clear that the tone from the top requires the vigour from each and every one in PETRONAS to reassess our own gold standards and migrate into unfamiliar territories of differing and "business unusual" viewpoints, operating models and culture. It rekindled in us the pioneering spirit, vision and profound intuition that have always been in PETRONAS' DNA.

We have tapped into the power of digitalisation which through hacking down of silo walls across PETRONAS, has opened new possibilities within our operations that will further push the transformation agenda. The year saw the best of kindred spirits at work – collaboration amongst entities, groups and individuals, within as well as external to PETRONAS, that brought different parties with differing views and expertise into a common platform of purpose – to create a sustainable future, a legacy, for generations to come. Moving forward, we must 'switch' to digital technology with a sense of urgency that will afford PETRONAS the possibility of new business models, new revenues and value-creation streams.

As you flip through the pages of this Report, you will notice that optimisation, cost effectiveness and efficiency are not merely seen in numbers, but on the actions demonstrated and the impact that PETRONAS continues to make – an impact that goes well beyond pure business, including more heightened Corporate Social Responsibility (CSR) activities in the areas of Education, Community Wellbeing and Development, and Environment. In remembering our roots, by giving back to society.

PROGRESSING FOR LONG-TERM SUSTAINABILITY

We are conscious that energy resources are prerequisites for progress, and that a flourishing global economy requires leading solutions in how this commodity is made accessible. One that calls for various stakeholders to work together in advancing sustainable growth across the energy sector.

Sustainability is synonymous with PETRONAS' relentless efforts to responsibly conduct our business practices. Amidst the changing externalities and evolving dynamics of the energy industry, we had accelerated efforts to integrate the core elements constituting PETRONAS' Corporate Sustainability Framework which, in essence, spans across the Environmental, Social and Governance aspects.

Our growth strategies require us to adapt to market vulnerabilities, continuing with the foray into unchartered frontiers and in different continents. Through all these we are unwavering in our focus on sustainability, in areas such as Climate Change; Human

Moving forward, **we must 'switch' to digital technology** with a sense of urgency that will afford PETRONAS the possibility of new business models, new revenues and value-creation streams

Sustainability is synonymous with PETRONAS' relentless efforts to **responsibly conduct our business practices**

Rights; Diversity and Inclusion; and Health, Safety, Security and Environment. Collectively overseeing its implementation is the PETRONAS Corporate Sustainability Council and PETRONAS HSSE ELT members, comprising a suite of personnel with diverse experience.

I am pleased to share that in 2017, we fortified our foothold in the area of renewable energy and enhanced our carbon commitments in driving towards a low-carbon economy.

BALANCING OPPORTUNITY AND RISK

As opportunities and risks continue to be more fluid and dynamic, our risk management system has evolved from the perspective of viewing and assessing risks and opportunities and its impact from individual/stand-alone towards portfolio and enterprise lens. This has assisted the Board and Management in achieving the Group's strategic objectives in a fair, informed and transparent manner.

This is strongly supported by having in place an effective risk management framework

Our risk management system has **evolved** from the perspective of viewing and assessing risks and opportunities and its impact from individual/stand-alone towards **portfolio and enterprise lens**

focusing on three areas of business resilience namely Enterprise Risk Management, Crisis Management and Business Continuity Management. A holistic risk approach is enabled through the aggregation of risk and opportunities identified, assessed and evaluated from the business value chain perspective.

With the Board's oversight on risk, supplemented by the establishment of the Board Governance and Risk Committee (BGRC) since 2010, these have set the tone from the top towards embedding risk management culture across the Group. This is further amplified through continuous monitoring of our principal risks and conducting various assurance activities across PETRONAS.

IMMERSED IN INTEGRITY

Since PETRONAS launched the CoBE (Code of Conduct and Business Ethics) back in 2012, we have never looked back on our pledge of zero tolerance for bribery and unethical business conduct. PETRONAS was the trailblazer in

implementing the No Gift Policy in corporate Malaysia and was recognised by Transparency International as the most transparent company of the emerging market's oil, gas and energy sector.

We continue to immerse and empower employees to do their professional best in business operations with rigorous advocacy guided by the PETRONAS Integrity Compliance Framework.

Our Integrity Compliance Framework is inclusive and also binds external parties who represent and/or act for the Group with the same Code, and making accessible a whistleblowing channel to the general public to report any act that goes against it. This year, PETRONAS' comprehensive Anti-Bribery

...was recognised by **Transparency International** as the most transparent company of the emerging market's oil, gas and energy sector

Management System for Corporate Services received the ISO 37001 certification, another feather in the cap in our continuous pursuit of world-class integrity practices.

I must congratulate the PETRONAS ELT for proactively collaborating with the Malaysian Anti-Corruption Commission (MACC) in undertaking the Corruption-Free Pledge in June 2017. This will definitely further strengthen our commitment in upholding the highest level of integrity.

NURTURING DIVERSITY AND IMPORTANCE OF CAPABILITY DEVELOPMENT

Whilst merit remains our true north for talents in the organisation, we must continuously build an ecosystem for a diverse pool of talents to grow and thrive. With the convergence of different industries and verticals, diversity is highly imperative for us to remain ahead of the curve in our thought process, decision making, customer orientation and talent development for a sustainable business growth. PETRONAS has made a significant headstart in building a robust and diverse talent pipeline, be it for leadership as well as technical expertise.

It is enlightening to note that women participation at board level across PETRONAS has jumped from 15.4 per cent in 2016 to 31.4 per cent as at 2017. In sustaining this upward trend, the PETRONAS Leading Women Network (PLWN) was established with regional hub leaders and champions appointed to connect and garner a collective voice from PETRONAS' women across the Group's value chain, in the quest to ensure a continuous pipeline of ready women talent at all levels, leading up to the Board.

The PETRONAS Scientist Development Programme is another conscious effort to develop the capability of a diverse group of niche expertise – with our scientists and technology management personnel comprising 20 nationalities, with 50 per cent of them aged 35 and below.

We will continue to focus our investment and energy to ensure our diverse talents are equipped with a holistic development programme and conducive working environment. One that respects and values diversity, unified by PETRONAS' Shared Values.

EXCITING TIMES AHEAD

All of the components in PETRONAS are now set in motion for us to continuously challenge and nurture our capability to manage risks, champion governance, embrace diversity and grow talents in an effective and sustainable manner.

PETRONAS is entrusted to manage the country's oil and gas resources. We remain humbled as well as encouraged by the strong support from our Shareholder, the Government of Malaysia. This *Amanah* and operational freedom to excel are the epitome of a life-long pursuit, coming to 44 years now, that has pushed PETRONAS to grow from being a domestic regulator into a reputable and respected global organisation. I am forever grateful to be part of the legacy that continues to uphold this *Amanah* zealously.

Last but not least, my utmost appreciation to Tan Sri Wan Zul, the ELT and the over 49 thousand PETRONAS Group employees who have withstood the challenging tides of world and industry events with great tenacity and Focused Execution. I would also like to record my thanks to the bigger family of PETRONAS – our customers, partners and communities who have continued to render unwavering support to PETRONAS for us to continue delivering value to the world. Thanks to you, our broad network of Shared Success is now stronger and better than ever.

Thank you.

PETRONAS has made a significant headstart in **building a robust and diverse talent pipeline**, be it for leadership as well as technical expertise

LETTER FROM THE PRESIDENT AND GROUP CHIEF EXECUTIVE OFFICER

>> The year 2017 was an exceptional year for PETRONAS where the Group emerged in a stronger position, both financially and operationally.

TAN SRI WAN ZULKIFLEE WAN ARIFFIN

>> President and Group Chief Executive Officer

We achieved a sterling performance, driven by the ongoing transformation efforts that focused on cost optimisation and efficiency improvements.

PETRONAS continued to reap tangible results from diligently carrying out internal initiatives that strengthen our competitive edge. We also persevered through several difficult decisions during the year under review to remain focused on value.

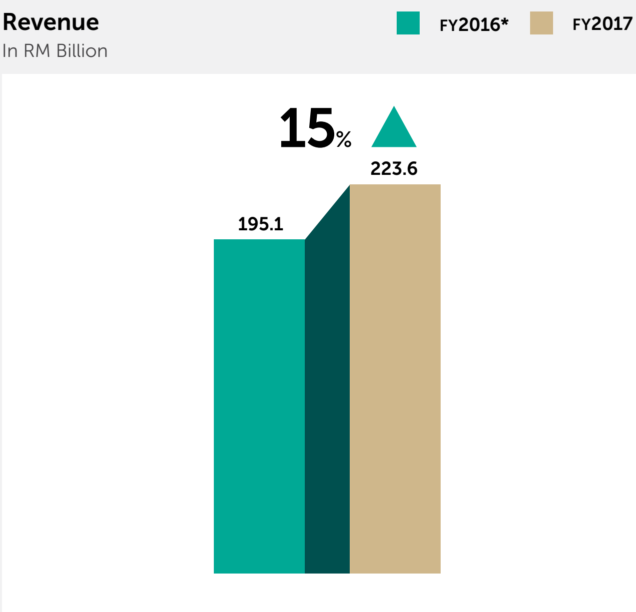
For 2017, PETRONAS recorded a higher revenue of RM223.6 billion, a 15 per cent increase from 2016, due to higher average realised prices coupled with the effect of a weaker Ringgit. This was partially offset by lower sales volume for crude oil and condensates as well as petroleum products.

On the back of higher revenue, Profit After Tax increased by 91 per cent to RM45.5 billion compared to RM23.8 billion in 2016, also attributable to lower net impairment on assets and well costs. We also continued to bring down costs and, during the year under review, successfully reduced our controllable operational expenditure by RM3 billion less than the previous year.

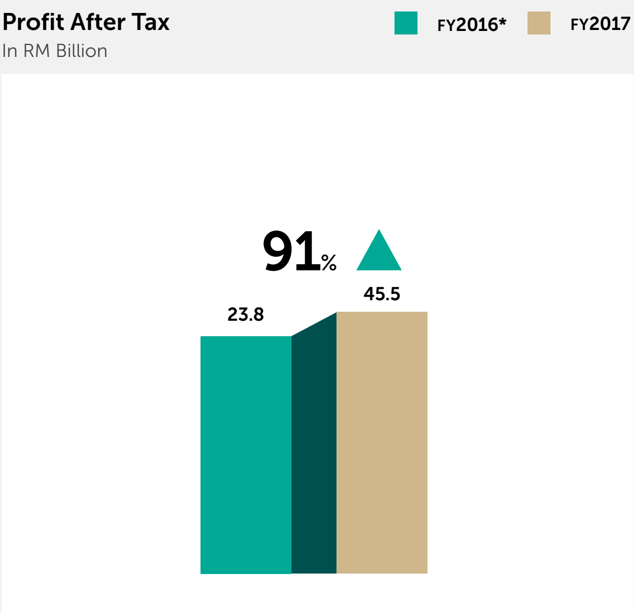
In line with higher profits, EBITDA grew to RM92.0 billion for the year under review compared to RM70.7 billion in 2016.

PETRONAS closed the Financial Year with total assets of RM599.8 billion, a slight decrease from 2016 mainly due to the impact of the Ringgit strengthening against the Dollar.

Revenue
In RM Billion



Profit After Tax
In RM Billion



* The figures have been restated due to the change in accounting policies with respect to revenue reporting and inventory valuation for gas trading activities.

Overall, PETRONAS maintained a strong credit rating and a healthy cash flow in 2017. Shareholders' equity rose from RM380.4 billion to RM389.8 billion while gearing ratio remained low at 16.1 per cent.

PETRONAS paid RM16 billion in dividends to the Malaysian Government in 2017 and continued to be the sole contributor to the National Trust Fund with a contribution of RM100 million for the year.

In 2017, PETRONAS continued to improve our Health, Safety, Security and Environment performance through focused intervention programmes that increased leadership visibility and improved compliance and competency. These include 'Rakan HSE', 'Must Do', 'Patuh dan Tegur' and 'I Am HSE'. The company remained resolute in institutionalising the HSE culture amongst employees and contractors besides improving the ability to predict and prevent untoward incidences.

On the sustainability front for 2017, PETRONAS launched the enhanced PETRONAS Carbon Commitments in support of Malaysia's commitment to the Paris Climate Agreement. We continuously reduced our Greenhouse Gas Emissions through a number of initiatives that focused on energy efficiency and improved reliability throughout our value chain.

Further to these initiatives and in fulfilling our role as a responsible corporate citizen, PETRONAS continued to contribute to ongoing environmental conservation efforts with an overall investment of RM100 million to date in projects such as Imbak Canyon in Sabah, Miri-Sibuti Coral Reefs National Park in Sarawak and the ecoCare and Setiu Wetlands in Terengganu.

Throughout the year, PETRONAS was able to stay on course in delivering growth projects and high-grade our assets portfolio to safeguard our long-term value. To ensure portfolio effectiveness, we exited selected markets and decided not to proceed with our Pacific Northwest LNG Project in Canada. This illustrates our serious intent to pursue value-driven growth and commercially viable opportunities that strengthen PETRONAS' foundation.

"PETRONAS paid RM16 billion in dividends to the Malaysian Government in 2017 and continued to be the **sole contributor to the National Trust Fund** with a contribution of RM100 million for the year."

The Group achieved a number of key milestones for Upstream and Downstream sectors, including the successful commissioning and delivery of LNG from PFLNG SATU, the world's first floating LNG facility, and the 87 per cent completion (as at March 2018) of the Pengerang Integrated Complex (PIC) which remains on track to achieve Ready for Start-Up (RFSU) status in 2019. Other key highlights will be shared further in the Upstream and Downstream reports in this section of the Annual Report.

Overall, PETRONAS' strong position is a testament to the concerted effort of our people, who have tirelessly rallied behind the leadership team and ensured excellence through Focused Execution.

We have come a long way since we began our transformation journey in 2015 during the industry downturn. Over the past three years, we have achieved robust performance in many aspects of our business operations, which have made us stronger and more agile as an organisation.

The cumulative results from several of our transformation initiatives have been immensely encouraging. One noteworthy achievement is CORAL 2.0, the industry-wide coalition spearheaded by PETRONAS with the aim to inculcate a cost-conscious mindset across the Malaysian oil and gas sector. Since its inception in 2015, we have realised RM11.5 billion in value generation from various activities to drive down costs and improve productivity. This is a testament to the collaborative synergy between PETRONAS and our industry partners.

We continued to adapt to an evolving industry climate by sustaining the momentum of our transformation and delivering strong results in 2017. PETRONAS is now well-positioned to further execute the three priorities of our long-term growth agenda.

Moving forward, we will focus on maximising our cash generators by sweating our assets and building a solid foundation for growth. We plan to expand our core oil and gas business by growing our resource base and enhancing our integrated business model. We will also step out to build capabilities and venture into new business areas whilst leveraging on global trends. These strategies will enable PETRONAS to enhance our competitive edge and long-term sustainability.

In achieving the objectives of our growth agenda, we will continue our cost optimisation and efficiency improvements whilst aligning all of our efforts with the themes of Collaboration, Pace, Going Digital and Competency to build a strong, cohesive team that can navigate through the challenging external environment.

We can only realise this ambition with the cooperation of our stakeholders. My sincere gratitude goes towards them for their continued support. Let me also take this opportunity to thank our Chairman, YBhg Tan Sri Sidek Hassan, and all the Members of the PETRONAS Board of Directors for their continued stewardship of the company.

Last but not least, thank you to the PETRONAS family from all over the world for demonstrating ownership and the collaboration to deliver Shared Success.
I am encouraged by the commitment of our dedicated employees who serve our mission with unwavering loyalty and perseverance, and for their hard work and selfless contributions in carrying out their duties.

Together as a winning team, we can build a PETRONAS that will be an enduring legacy.

Successful commissioning and **delivering** of LNG from **PFLNG SATU**

87 per cent completion (as at March 2018) of the Pengerang Integrated Complex (PIC)

LETTER FROM THE EXECUTIVE VICE PRESIDENT AND GROUP CHIEF FINANCIAL OFFICER

>> PETRONAS Group delivered a strong financial performance for 2017 on the back of robust output, better prices and ongoing transformation efforts.

DATUK MANHARLAL RATILAL

>> Executive Vice President and Group Chief Financial Officer

REVIEW OF 2017 FINANCIAL RESULTS

PETRONAS Group recorded a revenue of RM223.6 billion for 2017, a 15 per cent increase compared to RM195.1 billion in 2016, largely as a result of higher average prices recorded for major products and the favourable impact of a strengthening US Dollar, despite lower contribution from volumes sold.

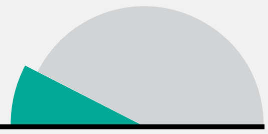
Major products were heavily influenced by the upward trend of key benchmark prices, with Dated Brent averaging USD54/bbl in 2017, after USD44/bbl in 2016.

Total Upstream production in 2017 was marginally lower by two per cent compared to 2016, mainly due to lower volume from international operations. Liquid production from domestic operations was also lower following conformance efforts to the Joint Declaration of Cooperation between OPEC and non-OPEC producers.

Group's Profit After Tax (PAT) grew by 91 per cent to RM45.5 billion, from RM23.8 billion in 2016. This was achieved on the back of better prices, improved margins and robust output.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the year was RM92.0 billion, an increase of 30 per cent as compared to RM70.7 billion in 2016.

15%



REVENUE

RM**223.6** billion

Revenue increased by 15 per cent on the back of stronger prices

91%

PROFIT AFTER TAX

RM**45.5** billion

PAT increased by 91 per cent, driven by better prices, improved margins and robust output

41%

CASH FLOWS FROM OPERATIONS

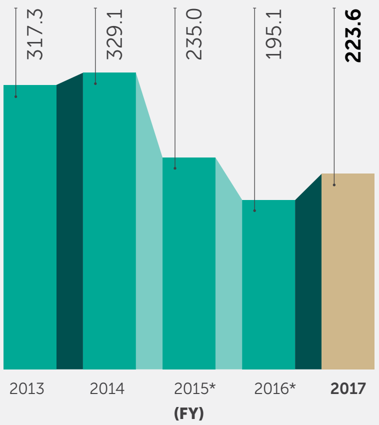
RM**75.7** billion

CFFO increased by 41 per cent in line with improved margins

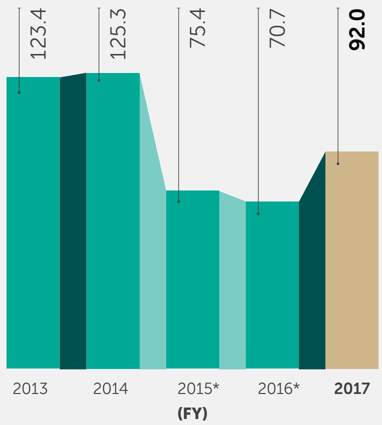
PETRONAS' FIVE-YEAR KEY FINANCIAL INDICATORS

In RM Billion

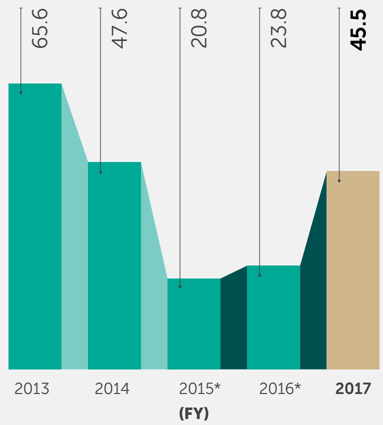
Revenue



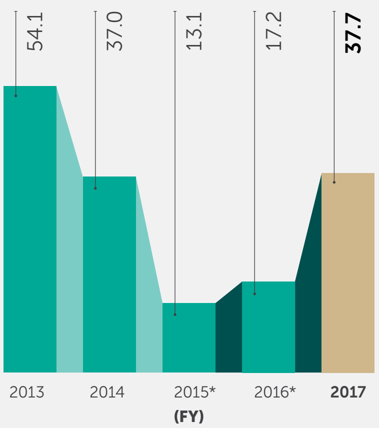
EBITDA



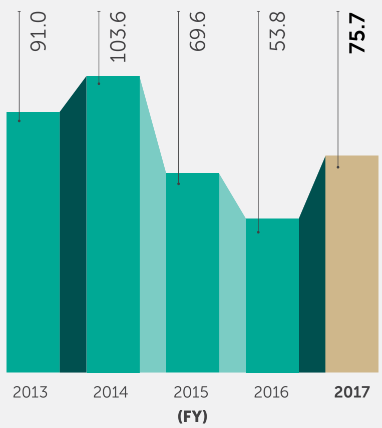
Profit After Tax



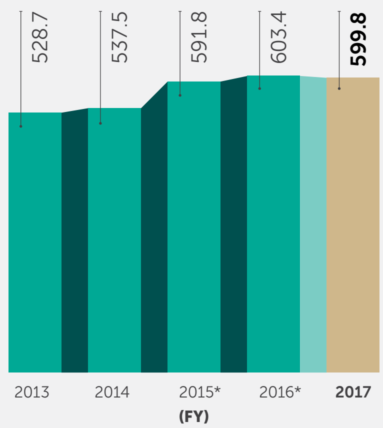
Net Profit Attributable to Shareholders



Cash Flows from Operations



Total Assets



Financial Ratios	FY2013	FY2014	FY2015*	FY2016*	FY2017
PAT Margin	20.7%	14.5%	8.8%	12.2%	**20.3%**
Return on Total Assets (ROTA)	17.5%	14.1%	5.8%	5.4%	**10.7%**
Return on Average Capital Employed (ROACE)	17.4%	11.9%	5.1%	5.4%	**9.8%**
Debt/Assets Ratio	0.08x	0.07x	0.10x	0.11x	**0.11x**
Gearing Ratio	14.3%	12.6%	16.0%	17.4%	**16.1%**
Dividend Payout Ratio	54.1%	53.6%	70.2%	>100%	**93.0%**

* Certain financial information and its corresponding financial ratios have been restated due to the change in accounting policies with respect to revenue reporting and inventory valuation for gas trading activities.

PETRONAS' Financial Position Remained Solid with Strong Liquidity

FINANCIAL POSITION AND LIQUIDITY

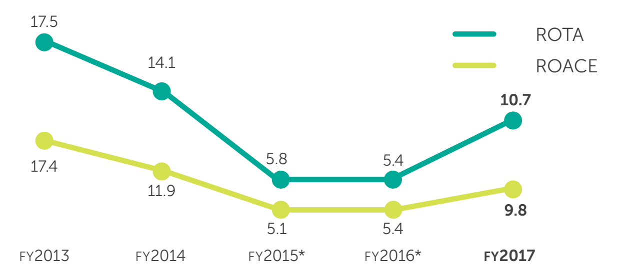
PETRONAS' financial position remained solid with strong liquidity. Total assets remained stable at RM599.8 billion as at 31 December 2017 whilst cash, fund and other investments stood at RM136.5 billion as at end of 2017; higher than RM131.8 billion recorded in the previous year. Similarly, cash flows from operating activities improved to RM75.7 billion, a 41 per cent increase from 2016. This was primarily due to strong margins and further supported by our efforts to maximise cash generators.

To ensure long-term sustainability and future growth of our businesses, RM44.5 billion was spent on capital investments in 2017, of which 83 per cent was for domestic projects, predominantly for the Pengerang Integrated Complex (PIC) project in Pengerang, Johor.

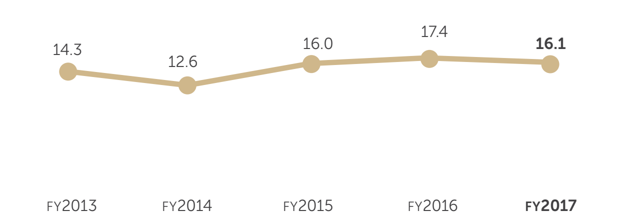
The Group's resilient performance was further reflected in various key financial ratios for the year. In line with the higher profit, the Group's ROTA and ROACE for 2017 stood at 10.7 per cent and 9.8 per cent, respectively. Gearing ratio remained stable at 16.1 per cent compared to 17.4 per cent recorded in 2016.

We continued to maintain our strong credit ratings[1] of A1 from Moody's and A- from both Standard & Poor's and Fitch during 2017. These ratings are testament to the strength of PETRONAS' financials and our outlook as well as a reflection of PETRONAS' resilience and capabilities to weather the uncertainties surrounding the industry.

Key Profitability Ratios
In Percentage (%)



Gearing Ratio
In Percentage (%)



* The figures have been restated due to the change in accounting policies with respect to revenue reporting and inventory valuation for gas trading activities.

ROTA 10.7% | **ROACE 9.8%** | **GEARING 16.1%**

MANAGING RISKS

PETRONAS is exposed to various risks that are specific to our core business of Upstream and Downstream operations. Our approach in managing risks is described in greater detail in our Statement on Risk Management and Internal Control set out in pages 112 to 120.

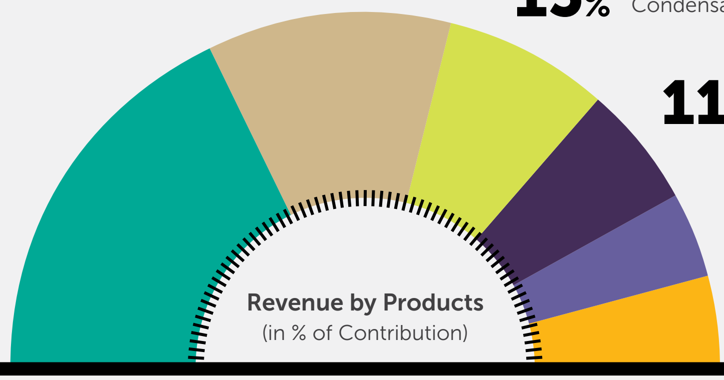
Key financial risks which arise in the normal course of conducting business comprise mainly credit, liquidity and market risks. This is explained further in Notes to the Financial Statements as part of Note 40 Financial Instruments.

[1] All of these ratings denote high-quality and investment-grade securities.

REVENUE BY PRODUCTS

In RM Billion

The Group's total revenue was RM223.6 billion, of which petroleum products and LNG accounted for 36% and 22%, respectively.



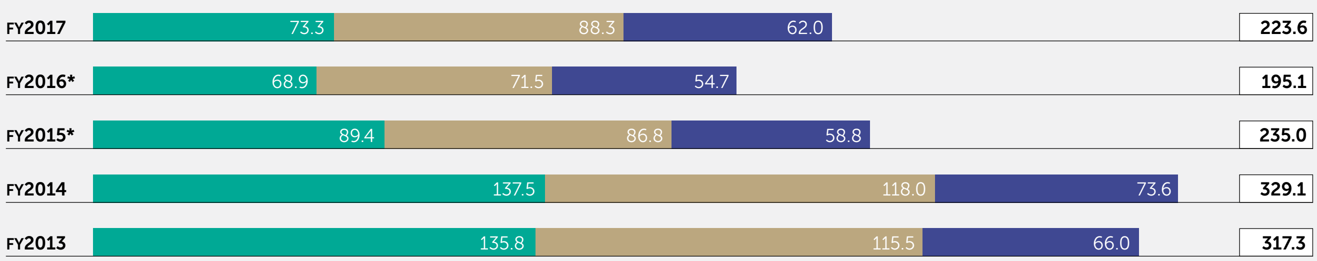
* Others comprise Property & Others and Maritime & Logistics.

In RM Billion

	FY2016	Change	FY2017
Petroleum Products	67.3	▲ 19%	79.8
LNG	39.5	▲ 26%	49.9
Crude Oil & Condensates	31.9	▲ 4%	33.3
Sales & Natural Gas	23.6 (FY2016*)	▲ 4%	24.6
Petrochemicals	14.0	▲ 26%	17.6

REVENUE BY GEOGRAPHICAL TRADE

In RM Billion



For 2017, PETRONAS recorded higher revenue for all the categories of our geographical trade as compared to 2016, primarily underpinned by higher prices.

Revenue from exports amounted to RM88.3 billion and at 39 per cent, is the largest contributor to the Group's revenue. Revenue from exports was 23 per cent higher than in 2016, mainly driven by higher LNG prices following an improvement in the JCC benchmark price and further supported by an increase in volumes sold.

International operations accounted for 33 per cent of the Group's total revenue and recorded an increase of six per cent. Revenue from domestic operations also improved by 13 per cent vis-à-vis 2016. The increase in revenue for both international operations and domestic was primarily due to stronger prices and higher volumes of petroleum and petrochemical products sold, respectively.

* The figures have been restated due to the change in accounting policies with respect to revenue reporting and inventory valuation for gas trading activities.

REVENUE BY GEOGRAPHICAL SEGMENTS

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

A
MALAYSIA
29%
Sale of petroleum products and sales gas

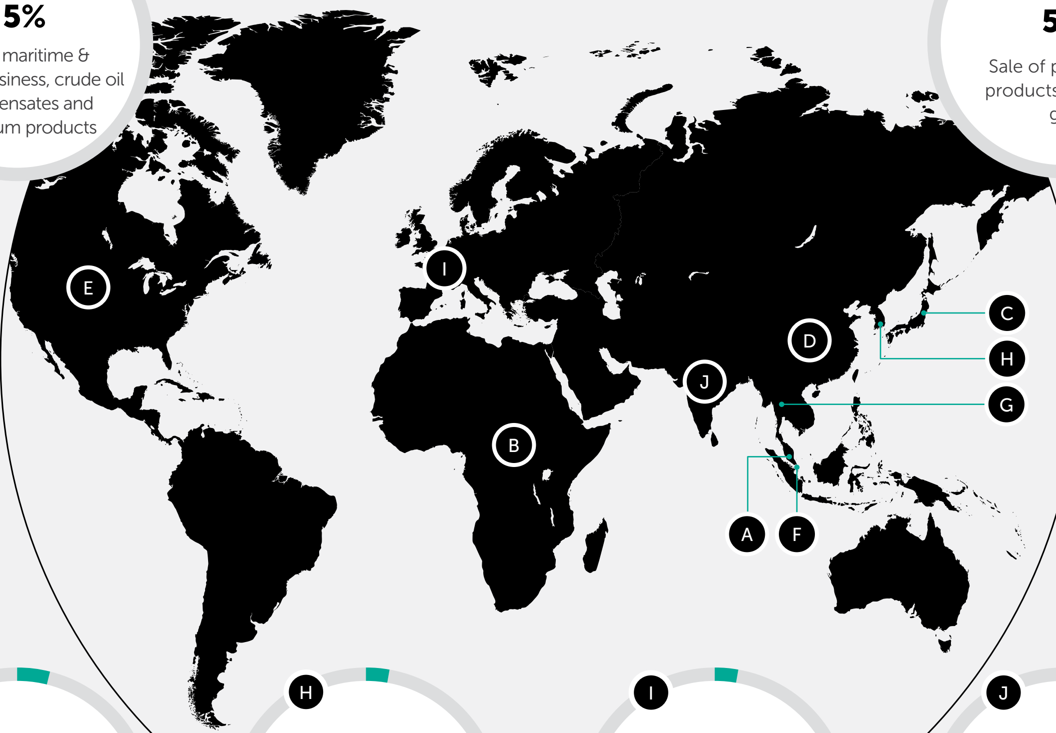
B
AFRICA
16%
Sale of petroleum products and crude oil & condensates

C
JAPAN
12%
Sale of LNG

D
CHINA
6%
Sale of LNG, petrochemicals and crude oil & condensates

E
AMERICAS
5%
Sale of maritime & logistics business, crude oil & condensates and petroleum products

F
SINGAPORE
5%
Sale of petroleum products and sales gas



G
THAILAND
4%
Sale of crude oil & condensates, petrochemicals and natural gas

H
KOREA
3%
Sale of LNG

I
EUROPE
3%
Sale of petroleum products, crude oil & condensates and LNG

J
INDIA
3%
Sale of crude oil & condensates

REST OF ASIA
10%
Sale of petroleum products, LNG and petrochemicals

REST OF THE WORLD
4%
Sale of crude oil & condensates and LNG

SEGMENT EARNINGS

The Group has two reportable operating segments comprising Upstream and Downstream. Corporate and Others comprise primarily maritime and logistics business, property business and the central treasury function. Both Upstream and Downstream business segments recorded stronger performances in 2017.

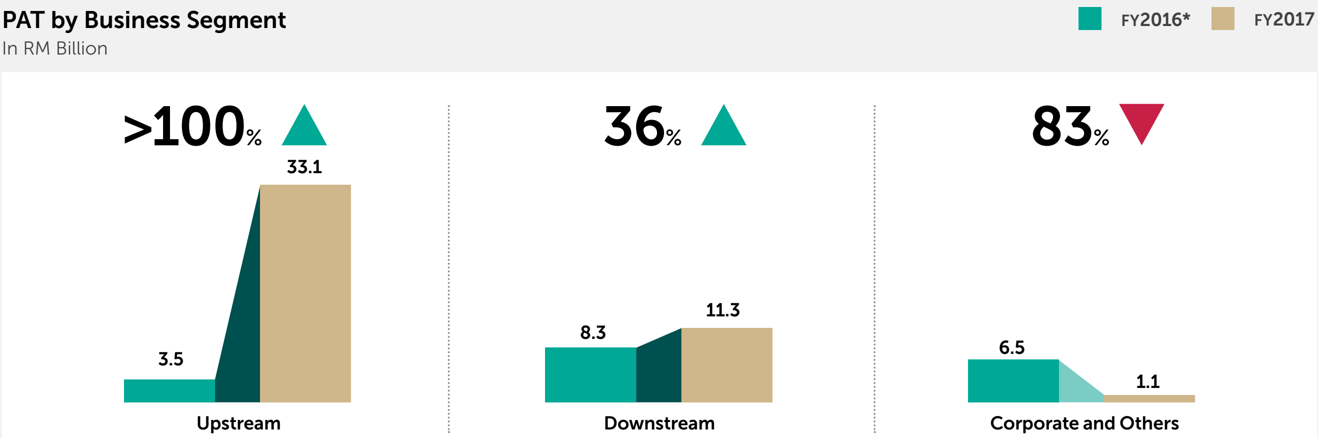
Our Upstream business continued to be the key contributor to the Group's PAT, accounting for 73 per cent of Group's PAT recorded in 2017. Upstream's PAT improved substantially from RM3.5 billion in 2016 to RM33.1 billion in 2017, primarily driven by higher prices and margins supported by rigorous operational excellence and cost management efforts.

In 2017, Upstream business' operational excellence efforts saw 13 projects achieving first production and the delivery of 443 LNG cargoes in total from Bintulu - the highest in PETRONAS' history - reinforcing PETRONAS' reputation as a highly reliable supplier. Above and beyond, continuous efforts in cost optimisation and cash management initiatives as well as high grading of our assets portfolio led to a significant improvement in Upstream's contribution towards the bottom line. Details can be found on pages 63 to 65.

The Downstream business also recorded a higher PAT of RM11.3 billion in 2017, a 36 per cent increase compared to RM8.3 billion recorded in 2016. The Downstream business contributed 25 per cent to the Group's PAT. The increase was mainly driven by improved petrochemical product spreads and international refining margin as well as higher trading and marketing margins. During the year, the Downstream business recorded best-in-class operational performance with Overall Equipment Effectiveness at 95 per cent. Our retail and marketing business also recorded the highest unit margin in five years contributed by successful retail growth initiatives and higher demand for base oil. Further information is provided on pages 66 to 69.

Meanwhile, Corporate and Others recorded a lower PAT by RM5.4 billion, or 83 per cent, to RM1.1 billion in 2017 as compared to RM6.5 billion in 2016 mainly attributed to higher net foreign exchange losses in 2017 due to the weakening US Dollar impact on our USD assets base.

PAT by Business Segment
In RM Billion

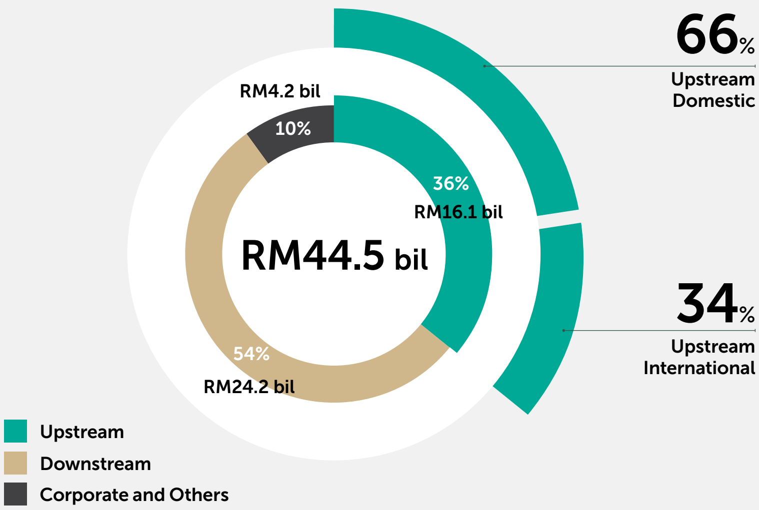


* Excludes elimination of inter-segment transactions of RM5.5 billion for FY2016 (FY2017: nil). The figures have also been restated due to the change in accounting policies with respect to revenue reporting and inventory valuation for gas trading activities.

SEGMENT CAPITAL INVESTMENTS

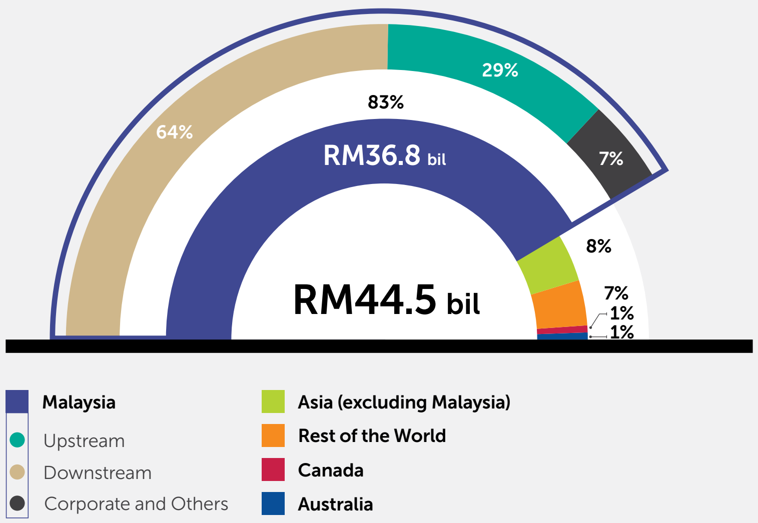
Capital Investments Allocation FY2017

In Percentage (%)



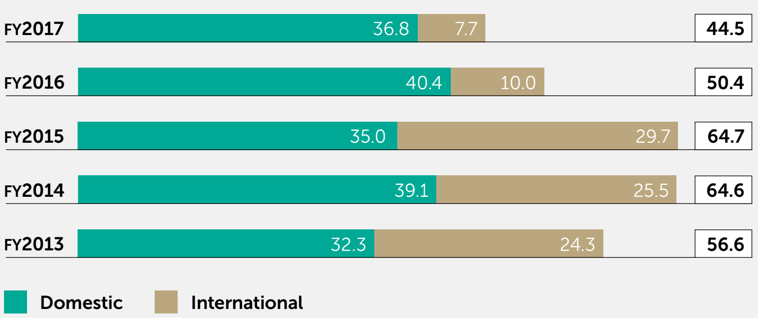
Capital Investments by Geographical Segment FY2017

In Percentage (%)



Domestic and International Capital Investments Breakdown

In RM Billion



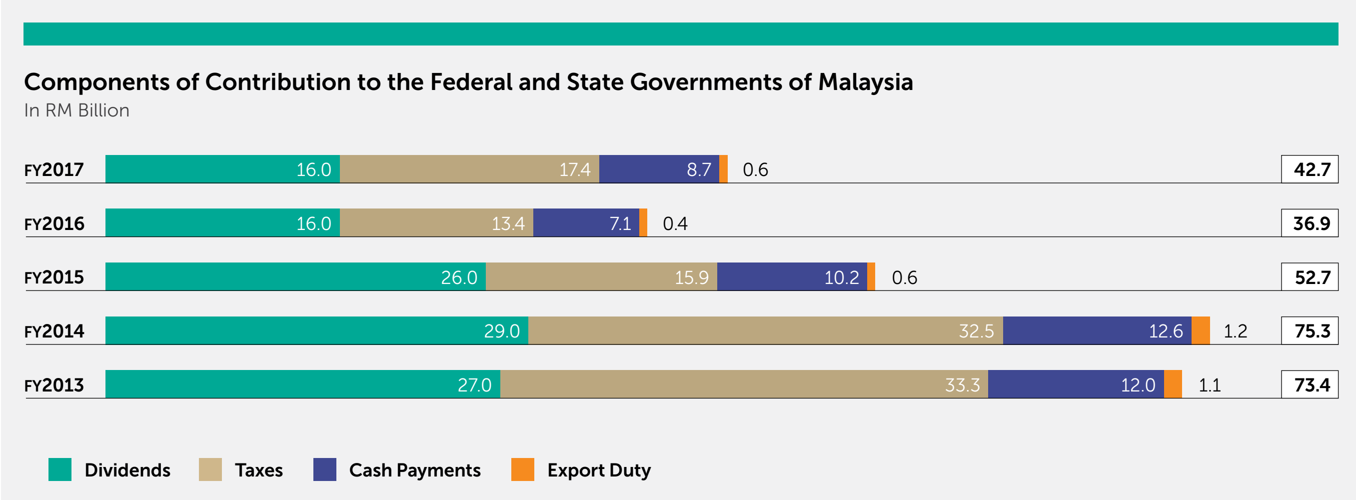
In 2017, capital investments reduced by RM5.9 billion, or 12 per cent, to RM44.5 billion compared to RM50.4 billion in 2016. The reduction was contributed by both the Upstream and Downstream businesses and resulted from the lower level of activities during the year.

The Upstream business accounted for 36 per cent of the Group's total capital investments and incurred a total spending of RM16.1 billion, a decrease of RM4.7 billion compared to 2016. The capital investments for 2017 were predominantly spent in exploration, development and production activities to support the growth agenda in Malaysia and international operations. Domestic capital investments of RM10.6 billion, or 66 per cent, include the Baram Delta Gas Gathering Project 2 (Bardegg 2) and the Baronia Enhanced Oil Recovery (EOR) Project as well as North Malay Basin pipeline and facilities in Terengganu. RM5.5 billion was invested in international operations including Azerbaijan, Iraq, Australia and Indonesia. For more information, refer to pages 63 to 65.

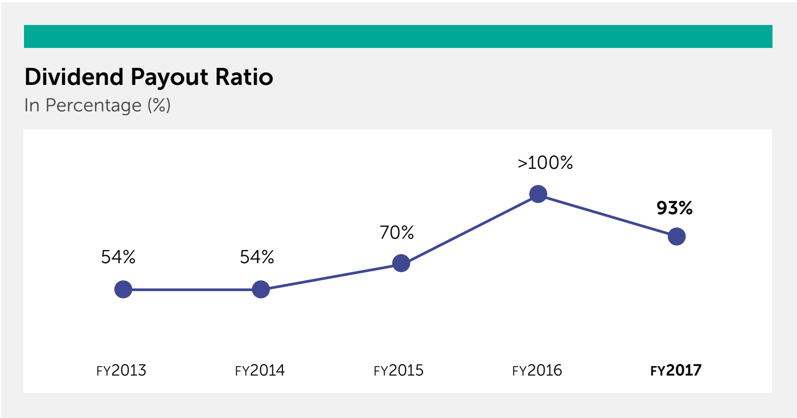
Capital investments for the Downstream business accounted for 54 per cent of the Group's total capital investments and were mainly attributed to the PIC project. PIC achieved 84 per cent completion as at 31 December 2017 and is anticipated to be completed by early 2019. Refer to page 66 to 69 for further details.

Businesses under Corporate and Others spent RM4.2 billion during the year with MISC Berhad (MISC) accounting for 83 per cent of total spending. The bulk of capital investments for MISC was spent on the delivery of two LNG Carriers and two Long Range Petroleum tankers as well as the acquisition of two on-water Very Large Crude Carriers.

CONTRIBUTION TO GOVERNMENTS



PETRONAS' contribution to the Federal and State Governments of Malaysia for the year ended 31 December 2017 amounted to RM42.7 billion, higher by RM5.8 billion compared to 2016, consistent with the improved performance.



Dividends paid in 2017 of RM16.0 billion translated to a dividend payout ratio of 93 per cent of Profit After Tax and Non-Controlling Interests which includes dividends in relation to 2016 of RM13.0 billion and interim dividends in relation to 2017 of RM3.0 billion.

Revenue Forgone (in RM Billion)	FY2017	FY2016	+/-	Cumulative Total Since 1997
POWER SECTOR	3.6	1.9	89%	160.5
NON-POWER SECTOR (including industrial, commercial, residential users and NGV)	2.8	1.2	>100%	87.3
Total	**6.4**	**3.1**	**>100%**	**247.8**

Revenue forgone in respect of regulated pricing mechanism imposed on the supply of gas to Peninsular Malaysia's power and non-power sectors increased to RM6.4 billion in 2017 compared to the previous year. The increase in revenue forgone was attributed to higher contract prices in line with increase in benchmark prices. Total revenue forgone of RM247.8 billion has been recorded since regulated prices came into effect in May 1997.

OUTLOOK

The continued drive for higher productivity and operational excellence over the past three years has placed PETRONAS in a stronger position to execute our long-term growth strategy. Subject to the sustainability of the oil price recovery, PETRONAS expects to deliver a satisfactory financial performance in 2018.

UPSTREAM

> The year in review has been largely positive for PETRONAS' Upstream business. Value-driven growth remained a priority.

Datuk Mohd Anuar Taib
Executive Vice President and
Chief Executive Officer, Upstream

We continue to build our strong portfolio of resources, growing our presence and expertise in unconventional plays, maximising value from our legacy assets and monetising our LNG portfolio. We have also enhanced our efforts on operational excellence, asset integrity and operational safety throughout our operations worldwide.

I am pleased to note that this year we implemented our Integrated Operational Asset Integrity Assurance (IOAIA) process, an assessment for system adequacy and effectiveness, particularly in the area of accident control. This, in tandem with our continuous efforts to reinforce our internal safety standards and asset integrity performance, helped us achieve more than 40 per cent reduction in Lost Time Injury and zero fatalities.

We recorded a strong business performance with a total equity production volume of 2,320 kboe/d while spending RM2.6 billion less in operating expenditure compared to 2016. We successfully rebased the unit production cost in our Upstream business down by 35 per cent since the onset of the low oil prices in 2014.

In Malaysia, together with the Petroleum Arrangement Contractors and Service Providers, we achieved RM6.5 billion in cost savings through the CORAL 2.0 initiative. This PETRONAS-led initiative was instrumental in bringing the industry together to ensure the industry was able to withstand the headwind in 2017.

During the year, PETRONAS awarded six production sharing contracts in Malaysia, including three ultra-deepwater blocks. Internationally, PETRONAS secured, in total, nine exploration blocks in Mexico, making us one of the largest exploration acreage holders in the country.

In Canada, we were disappointed that we had to cancel the Pacific NorthWest LNG project in Port Edward, British Columbia due to market conditions and shifts in the energy industry. However, we remain committed

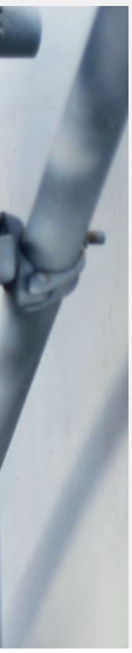
This year, we lifted 443 LNG Big Cargo Equivalent (BCE) from the PETRONAS LNG Complex (PLC) in Bintulu, the highest number in the history of PETRONAS, and we proudly delivered the 10,000th cargo from the facility.

to exploring all opportunities to monetise the significant resources in Northeast British Columbia.

As a major global LNG player, we continue to provide reliable, flexible, affordable and sustainable total LNG solutions.

In 2017, we recorded 30.72 million tonnes in LNG sales volume, a two per cent increase from 2016. We lifted the highest number of LNG cargoes from the PETRONAS LNG Complex (PLC) in Bintulu, 443 LNG Big Cargo Equivalent (BCE), and proudly delivered the 10,000th cargo in September 2017.

The PFLNG SATU, our first floating LNG facility, achieved a new milestone with the successful loading of its first cargo which was



delivered via the LNG carrier Seri Camellia to India. By the end of the year, the facility had produced and delivered a total of five LNG cargoes.

At PETRONAS LNG COMPLEX (PLC), the ninth liquefaction train (PL9SB) started commercial operations in Q1 2017. This boosts the total output capacity of the PLC by 3.6 mtpa to around 30 mtpa. In Q2 2017, PTTGL Investment Ltd, a subsidiary of PTT Thailand, acquired 10 per cent equity interest in PL9SB.

The partnership is PTT's second collaboration following an LNG sales and purchase agreement (SPA) signed with PETRONAS LNG Ltd earlier in 2017. Under the LNG SPA, PETRONAS will deliver up to 1.2 mtpa of LNG to PTT for 15 years until 2031. The first cargo was delivered to PTT in July 2017.

PETRONAS also signed agreements to supply JERA Co Inc of Japan with up to approximately 2.5 million tonnes of LNG annually for a period of three years beginning April 2018; Hokkaido Electric Power Company with 130,000 metric tonnes of LNG for 10 years; as well as a long-term supply agreement with S-Oil Corporation, Korea.

We see gas playing a significant role for a low-carbon future, especially in light of increasing energy demand globally. Last year, we signed a Memorandum of Understanding with Gas4Sea partners, comprising ENGIE SA, Mitsubishi Corporation and Nippon Kabushiki Kaisha to explore collaboration to promote LNG as the preferred marine fuel.

We also formalised partnerships for ship-to-ship LNG transfer in Labuan as well as gassing up and cooling down services at Bintulu Port. The services at Bintulu Port will commence in 2018, positioning Bintulu as one of the premier LNG hubs and making it one of the few terminals in the world to offer this facility.

Moving forward, we will continue to focus on value-driven growth and improve our operational excellence to ensure safety, reliability and sustainability of the Upstream business. We will continue pursuing opportunities to collaborate, integrate and innovate to realise our growth strategies.

DOWNSTREAM

"2017 was a great year for the Downstream business as the gradual recovery in the global oil price and operational efficiency have positively impacted our overall performance. We proactively find efficiencies in the way we operate to ensure sustainability."

Datuk Md Arif Mahmood
Executive Vice President and
Chief Executive Officer, Downstream

To this end, we continue to remain vigilant and prepare for unexpected challenges as we engineer new approaches to capitalise on these opportunities in the future. We have kept our costs under control and focused on activities that could increase our operational efficiencies and improve our business value.

Downstream's Profit after Tax (PAT) was RM11.3 billion, a 36 per cent jump from the RM8.3 billion we achieved in 2016. This achievement was the result of our strong operational performance which saw us capturing a higher spread on petrochemical products, as well as higher refining and trading margins. Our Profit before Tax (PBT) margin was 12 per cent and we were able to contribute a total of RM5.8 billion to PETRONAS in the form of dividends, 66 per cent more than what we repatriated in the previous year.

Our Overall Equipment Effectiveness (OEE) stood at 94.9 per cent, with refineries in Malaysia recording an OEE of 92.1 per cent and refineries in South Africa recording 99.7 per cent. Our refining and trading activities continued to capture higher margins, largely as a result of positive price movements and consistent production activities. PETRONAS Trading Corporation Sdn Bhd (PETCO) recorded an outstanding performance, driven by focus on high-value trading.

For petrochemicals, we sustained our operational performance, recording plant utilisation of 91 per cent - well above the world-class benchmark despite undertaking heavy statutory turnaround activities at selected facilities. Petrochemical sales volume for the year amounted to 8.1 million metric tonnes, significantly higher than the 7.3 million metric tonnes recorded in 2016.

In the retail sector, we recorded the highest unit margin in five years, supported by retail growth initiatives which successfully delivered higher fuel volume and convenience income. To address the increasing demand for higher quality diesel, PETRONAS Dagangan Berhad

(PDB) launched the new Dynamic Diesel Euro 5 with Pro-Drive, a next generation sulphur-free diesel proven to deliver a smoother drive and superior fuel economy.

The lubricant business recorded modest growth in Italy, Brazil and the Middle East, as well as a growing demand for base oil. Strong plans for Engen Limited contributed to the recovery in the retail volume with margin improvement of three per cent higher than the same period last year.

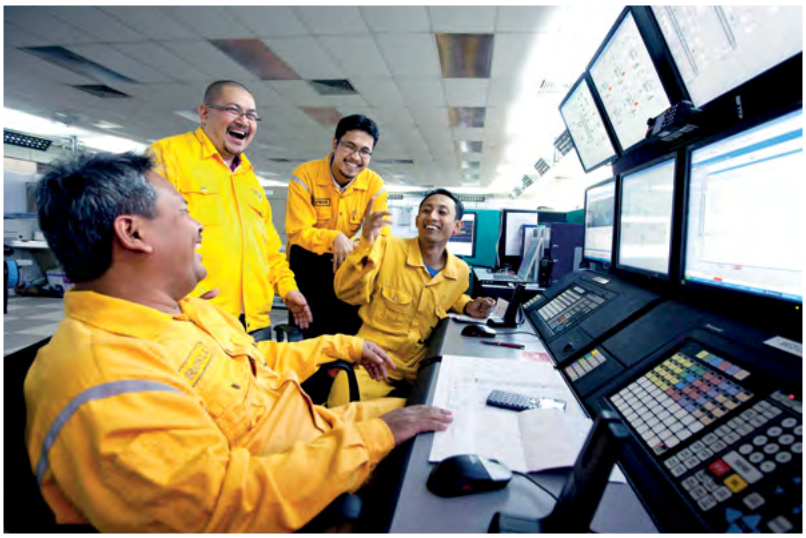
During the year, we also achieved significant milestones in our key projects.

Pengerang Integrated Complex (PIC) progressed to more than 87 per cent as of March 2018 and is expected to achieve 98 per cent completion by the end of 2018. The refinery is set to receive its first crude in October 2018, and remains on schedule to achieve its Ready For Start-up Status (RFSU) in the first quarter of 2019. On 28 February 2017, we signed a Share Purchase Agreement (SPA) with Saudi Aramco for its 50 per cent equity participation in the Refinery and Cracker project within PIC. This partnership would secure at least 50 per cent of the Refinery and Petrochemical Integrated Development's (RAPID) crude requirements from Saudi Aramco whilst leveraging supply of natural gas, power and other utilities from PETRONAS. On 29 September 2017, PETRONAS Chemicals Group Berhad also signed an SPA with Aramco Overseas Holdings Cooperative UA (AOHC), a subsidiary of Saudi Aramco, for its 50 per cent equity participation in PRPC Polymers to develop, construct, commission and operate the polymer and glycols plants in Malaysia.

Recently, PETRONAS and Saudi Aramco announced the formation of two joint ventures, and this strategic alliance is a historic partnership between two of the largest and most successful national oil companies in the world, bringing together the resources, technologies, experience, expertise and commercial presence.

In 2017, Downstream also recorded 227 million manhours, an increase of 60 per cent compared to the previous year, mainly contributed by PIC, recording 154 million manhours, as it reached peak construction with more than 63,000 workers from 60 different nationalities on-site.

The Pengerang Gas Pipeline Project (PGPP) achieved gas-in status in June to support the commissioning of the Pengerang Co-Generation Plant (PCP) which enabled the supply of gas from the existing Peninsular Gas Utilisation (PGU) pipeline system to PIC. The Liquefied Natural Gas (LNG) Regasification Terminal Pengerang (RGTP) project achieved commercial operations on 1 November 2017. RGTP is designed to regasify LNG into natural gas as well as to maintain the availability of gas in the existing PGU network. The project consists of an LNG regasification unit with a total capacity of 3.5 mtpa, two units of 200,000m^3 LNG storage tanks, and a jetty capable of handling up to Q-Max-sized carriers.



We aim for reliability and efficiency in ensuring the work is delivered safely, with minimal unplanned disruptions to achieve operational excellence.

In Sabah, PETRONAS Chemicals Fertiliser Sabah Sdn Bhd (SAMUR) began commercial operations in May 2017. The Highly Reactive Polyisobutylene (HR-PIB) plant was commissioned in December and has already distributed on-spec products beginning January 2018.

In an industry characterised by fluctuation and challenges, the business adheres to the Downstream Focused Framework which champions operational, commercial and project delivery excellence. We capitalised on our integrated value chain, digital and technology, supported by a working culture strong in dedication and high performance.

We aim for reliability and efficiency in ensuring the work is delivered safely, with minimal unplanned disruptions to achieve operational excellence. Reliable plant performance coupled with prudent cost management across the business enabled us to reduce our controllable costs by 13 per cent, or RM1.7 billion, against 2015. This was our lowest spending in three years despite higher activities and prices.

In the realm of commercial excellence, we aim to sustain and grow our business in partnership with our customers and with a focus on growing markets. In 2017, our marketing team recorded a five-year high unit margin and achieved its targets, sustaining the premium of our Malaysian crude oil.

In 2017, the Downstream segment also embarked on a range of digital initiatives throughout the year as a means to enable our business strategies. The journey converged multiple digital initiatives allowing Downstream to successfully initiate the first building blocks towards driving full digital adoption across the business. The initiative aims to unlock values and business opportunities for manufacturing business, with end-to-end visibility of plant operations status and performance.

Last year, PDB, one of Downstream's marketing arms, also signed a Memorandum of Understanding with Malaysian Green Technology Corporation, an agency under Malaysia's Ministry of Energy, Green Technology and Water, to help reduce the country's carbon footprint by installing electric vehicle charging, or ChargeEV, units at our stations. The government aims to set up 25,000 ChargeEV units stations throughout the country by 2030.

On Health, Safety, Security and Environment (HSSE), we continue to prioritise our safety culture. The number of major incidents was lower than 2016, but regretfully we suffered four fatalities in 2017.

As we move into 2018, we will continue to be guided by our Downstream Focused Framework. We will continue to 'Play to Win' from the customer's lens and focus on delivering a holistic experience, as well as reduce our operational costs and improve our operational efficiency.

In HSSE, our target is to achieve zero for all our major key performance indicators. This goal is only achievable with the commitment of every single employee. We will intensify our '*Jom Patuh & Tegur,* or 'Let's Comply and Intervene' efforts, and reinforce the safety culture by leveraging on our 'See it, Own it, Solve it, Do it' cultural model of accountability.

OUR MARKET IN 2017

The global economy grew by 3.6 per cent in 2017, greater than the 3.2 per cent recorded in 2016. Half of the growth was contributed by China, India and the US.

Countries such as Russia and Brazil emerged from recession following a recovery in commodity prices. At the same time, strong economic fundamentals, particularly in the US and Europe, led to governments tightening monetary policies. The US Federal Reserve increased interest rates three times in 2017, to end the year at 1.25 per cent, while the European Central Bank reduced its monthly bond purchases from €80 billion to €60 billion.

In line with the growth in the global economy, primary energy demand grew by 1.6 per cent to 14,399 Mtoe in 2017.

Brent crude oil price also improved, gaining 24 per cent to average at USD54/bbl compared with USD44/bbl in 2016, as the global oil market tightened considerably in 2017. This was largely due to output cuts by the OPEC and non-OPEC alliance that reduced developed countries' inventories close to the target of a five-year average of 2,788 million barrels.

Stronger growth in global oil demand also contributed to the decline in commercial oil inventories. Demand grew 1.6 mbpd to average 97.8 mbpd, according to the International Energy Agency.

At the same time, crude oil price volatility increased as a result of geopolitical instability. Unplanned outages in the North Sea and supply restrictions due to tensions in key oil producing countries in the Middle East and Africa resulted in price spikes.

Prices for spot LNG in the Far East remained strong to average above USD7 per mmBtu in 2017, compared with below USD6 in 2016.

In China, LNG demand grew by 50 per cent in 2017 as the government's coal-to-gas fuel switching policy created an unexpected surge in imports. This enabled China to overtake South Korea and become the world's second-largest LNG importer. Japan remains the world's largest importer of the fuel.

Globally, LNG supply grew by about 10 per cent to almost 300 mtpa in 2017, driven by new project start-ups, notably the PETRONAS Floating LNG SATU facility (PFLNG SATU) in Malaysia; Australia's Gorgon Train 3 and Wheatstone LNG; Sabine Pass Phase 2 and Cove Point LNG in the US; and Russia's Yamal LNG.

Only the 3.4 mtpa Coral FLNG located offshore Mozambique managed to win final investment decision, marking 2017 as the second consecutive year where low LNG prices reduce the number of projects being sanctioned.

In the petrochemical sector, ethylene prices in Southeast Asia increased by 5 per cent to USD1,093/tonne in 2017, supported by strong demand for derivatives.

Global ethylene demand increased by 3.2 per cent to 152 mtpa in 2017, mainly driven by Asia Pacific, North America and the Middle East.

On the supply side, ethylene capacity rose by 4.7 per cent to 170 mtpa, following the coming onstream of new projects in India, China, the Middle East and the US.

In the US, chemical producers are able to harness the rising production of shale resources as feedstock.

¥ ₹ $

China, India and the US **contributed half of 2017 GDP growth**

In the upstream sector, global capital expenditure remained low at around USD400 billion, about half of the 2014 peak, as oil companies kept a tight rein on spending despite indications of an oil price recovery.

Exploration budgets were stretched and oil companies focused on drilling simpler and better wells located near existing infrastructure in order to keep costs low. At the same time, many oil companies avoided hard-to-reach reservoirs such as high-cost frontier areas in the Arctic, and high-pressure, high-temperature plays.

Although the number of sanctioned projects grew in 2017, these projects were generally smaller with companies opting for faster returns and reduced risks. This trend became more dominant throughout the year with a greater focus on the unconventional oil and gas sector in which North America is a leading producer.

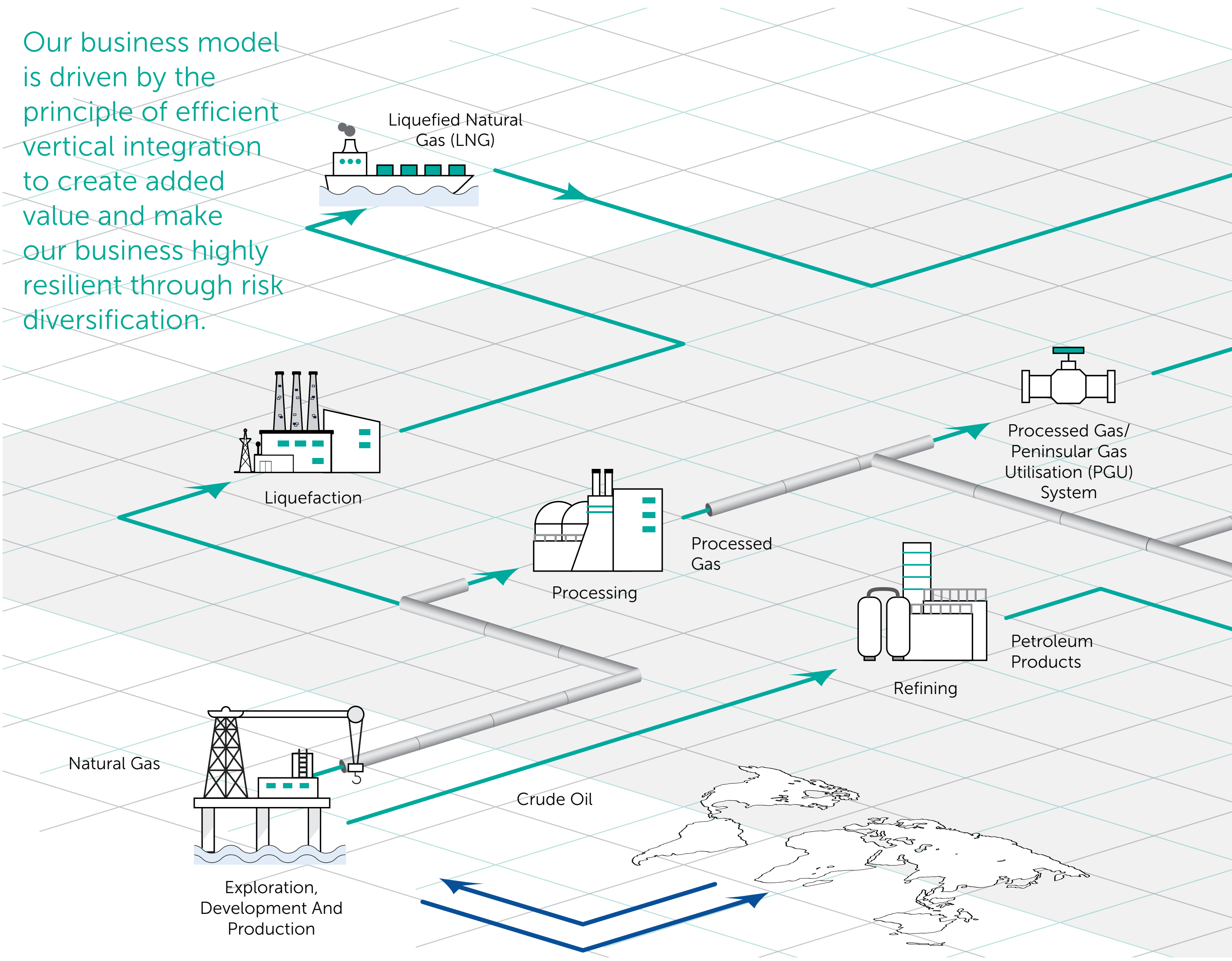
In 2017, cleaner energy made great strides as more countries increased their large-scale renewable energy projects. The cost of solar PV, onshore wind and offshore wind fell to record lows, enabling unsubsidised markets and renewable energy projects to compete with fossil-fuelled power plants. The successful installation of the world's largest lithium-ion battery in South Australia marked further progress in developing energy storage to resolve intermittency issues.

In a nutshell, 2017 was a year where a recovery in the global economy helped spur demand growth for oil and gas.

Upstream sector sanctioned smaller projects **for faster returns, reduced risks**

VALUE CHAIN

Our business model is driven by the principle of efficient vertical integration to create added value and make our business highly resilient through risk diversification.



EXPLORATION AND PRODUCTION

EXPLORATION
Developing resource potential and building up commercial reserves.

DEVELOPMENT
Field development and construction (including supporting infrastructure).

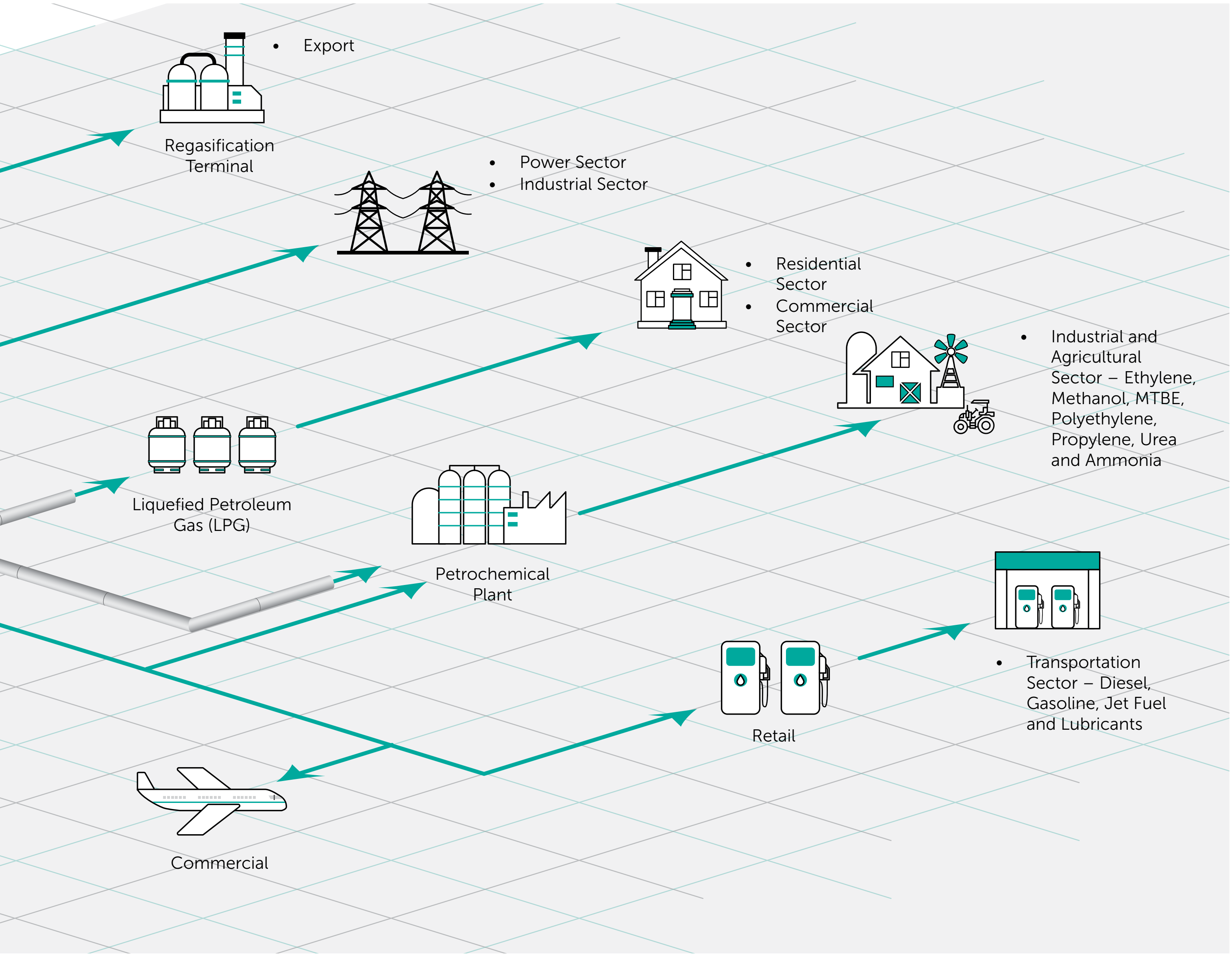
PRODUCTION
Drilling and production of hydrocarbons.

PROCESSING

LIQUEFACTION
Converting gas into liquid state by increasing pressure and reducing temperature to shrink the gas volume.

PROCESSING
Turning streams of natural gas into commercial products, in addition to treating gas deposits.

REFINING
Processing crude and condensates into useful petroleum products.



v

MARKETING AND DISTRIBUTION

RETAIL
Selling and marketing of fuel and non-fuel products and providing one-stop convenience centres at service stations.

COMMERCIAL
Trading and marketing of crude oil and petroleum products to individual and commercial customers.

PETROCHEMICAL PLANT
Processing of oil and gas into products from which other chemicals are derived.

LIQUEFIED PETROLUEM GAS (LPG)
Propane and butane components used as cooking fuel, transport fuel and feedstock for petrochemicals.

PROCESSED GAS/ PENINSULAR GAS UTILISATION (PGU) SYSTEM
Natural gas is processed and fed into a pipeline system that delivers it to different sectors.

LIQUEFIED NATURAL GAS (LNG)
Natural gas that is liquefied under extremely cold temperatures to facilitate storage or transportation in specially designed vessels.

OUR STRATEGIC FOCUS

THREE-PRONGED STRATEGY FOR FUTURE POSITIONING

1 MAXIMISING CASH GENERATOR

Malaysia's Integrated Value Chain

- Maximise value of integrated production across the value chain through operational & commercial excellence

International Assets

- Monetisation of Canadian gas resources
- Continued focus on South East Asia to pursue resource monetisation & further exploration opportunities

2 EXPANDING CORE BUSINESS

Deliver Material Oil in Atlantic Basins

- Build materiality & improve our portfolio's oil-gas balance

Expand Unconventional Position

- Grow our unconventional position in North America, focusing on short-cycle investments

Balance Portfolio Through Major Resource Holder Proven Oil

- Obtain steady cashflows that are less susceptible to oil price volatility

Deliver RAPID & Expand Adjacencies

- Successfully deliver RAPID by 2019 & expand value chain by extending into adjacent products

Grow the Integrated Business Model

- Replicate the integrated model that we have in Malaysia to selected regions, aligned with the growth of our resource base

3 STEPPING OUT

Specialty Chemicals

- Leverage on our strong petrochemical foundation to venture into specialties

New Energy

- Position ourselves in new energy, to capitalise on potential business opportunities for the longer term

OUR ADVANCED CAPABILITIES

TECHNOLOGY DELIVERY EXCELLENCE

In our pursuit of unlocking opportunities for a sustainable future, PETRONAS recognises that technology is key to staying ahead of the curve in the oil and gas industry. It enables us to develop innovations that matter as well as add immense value for our stakeholders. In a nutshell, our commitment to technological advancement remains continuous, consistent and unwavering.

Technology as a differentiator is the central thrust of our technology agenda. We are steadfast in advancing selective technologies whilst accelerating pace of delivery via critical and strategic collaborations that add to our resource and reserve. On top of improving efficiencies and operational excellence, we strive to differentiate our offerings in order to gain competitive, resilient advantage in the energy market.

Taking into account technology's multifaceted dimensions as a disruptor and game changer, our investment in research and technology (R&D) aims to seek new growth avenues and pursue robust, long-term opportunities. This will provide us with a glimpse into the future in addition to allowing us to explore new adjacencies beyond the realm of oil and gas.

Consequently, our focus on technology has yielded significant, meaningful results; enabling us to deliver fit-for-purpose solutions to our integrated value chain, obtain worldwide recognition for our products and services while attracting and promoting strategic partnerships and best-in-class collaborations that cement our foundation and reputation as a multinational company of choice.

Our technological achievements are enabled by the strength and talent of our team, comprising more than 400 scientists and researchers. A total of 39 members of our R&D management team possess doctorates in their respective specialisations. Pushing the envelope, we are able to choose, establish and enhance collaborations with renowned national and international academic institutions as well as forge strategic partnerships with local and global industry players in specific fields of R&D and technology.

PETRONAS is proud of the fact that our researchers, scientists, pioneers and innovators continue to receive global accolades whilst blazing new trails to develop unique, fit for the future energy-oriented engines of growth. PETRONAS is also a regular recipient of numerous international awards for our R&D initiatives and product innovations - testament to our ability to deliver world-class technological solutions.

Comprising more than **400 scientists** and **researchers**

Delivering **fit-for-purpose solutions** to our integrated value chain

PROJECT DELIVERY EXCELLENCE

A great example that also embodies PETRONAS' advanced capabilities is our Top Quartile Project. Marrying smart innovation with hard work, PETRONAS has thus far sown and reaped many benefits from such a forward thinking, next generation approach.

With over 40 years of proven track record, PETRONAS continues to demonstrate our capability in diverse project types; from neighbourhood retail stations to the world's first floating LNG facility and the world's largest integrated petrochemical complex in a single development. Based on the Industry Performance Analysis benchmark, the overall performance of our past projects has been at par with, or better than, the industry average.

In line with our commitment to deliver best-in-class project performance, we introduce unique innovation in our project strategy, design and practices via a value-driven and portfolio-based approach and sharper cost management, aided by enhancing capabilities whilst pursuing new forms of collaboration.

Additionally we continue to sharpen our cost discipline through the application of fit-for-purpose standards and solutions, smarter and strategic procurement practices and proven technologies that have enabled PETRONAS to accelerate new projects and allocate investments in supporting growth areas.

The overall performance of our past projects **has been at par with, or even better than, the industry average**

The recent cost compression efforts are **designed to help us deliver best-in-class projects**

TECHNOLOGY FOCUS AREAS

GEOIMAGING TECHNOLOGY

Our cutting-edge Geoimaging technology has allowed us to see the unseen, better than others. The technology enables PETRONAS to better see the upside potential and de-risk the prospects, improve the design and placement of wells and optimise facilities. PETRONAS' Geoimaging technology is expected to increase the probability of success.

GAS SUSTAINABILITY

Presently, many undeveloped sour gas fields around the world contain a significant fraction of CO_2. High CO_2 content of up to 80 per cent, as well as in some cases the addition of hydrogen sulphide (H_2S), severely limit the economic and environmental viability of sour gas resources.

At present, 40 per cent of CO_2 content stands as the commercial limit with PETRONAS' proven membrane technologies. Whilst these technologies are customarily, singly applied to individual projects, PETRONAS' Gas Sustainability Technology is being readied for implementation as a holistic and integrated solution. Where such a suite of integrated solutions can be applied, the upshot will be cost effectiveness in production. As managed in the production of gas fields below 40 per cent of CO_2 content, gases extracted from various fields may be separated either at offshore or onshore and the management of the CO_2 is through converting to value added products.

ENHANCED OIL RECOVERY (EOR)

Technology has enabled us to bring fields that were previously considered depleted, back to life. Sweating our assets, we are spearheading innovations and unlocking new opportunities in technically and economically challenging resources through our EOR technology.

Through extending field life and improving oil recovery, we have successfully rolled out our Gravity Assisted Simultaneous Water Alternating Gas (GASWAG) EOR. The world's first EOR technique unique to PETRONAS was successfully deployed in one of our field developments in Sabah and current projections have shown that it is poised to improve the field's resource recovery rate for the next 20 years.

PETRONAS has also successfully delivered Water Alternating Gas (WAG) technology at one of our offshore fields on Malaysia's East Coast, which enabled brownfields to increase their recovery rates by more than 10 per cent. As a continuation from this successful on-field application, PETRONAS is embarking on the use of Enhanced WAG (EWAG) and Chemical EOR (CEOR) technology that will further increase the overall resource recovery rate.

Once our CEOR technology is implemented, it will be the first full field offshore CEOR in the world, and the only one which will have the capability to function reliably in a high-temperature environment.

PETRONAS CO_2 technology has a suite of solutions for **sour field development**

The use of **EWAG** and **CEOR** technology **will further increase the overall resource recovery rate**

FACILITIES OF THE FUTURE

Our future operating model will be lean, centralised, automated, modular and mobile. This model is expected to halve our operating costs by 2025.

With cost optimisation as an evolving priority, PETRONAS understands the importance and impact of digital and automation technologies for the oil and gas industry.

With this very much in mind, we have introduced our Facilities of the Future programme which aims to develop state-of-the-art technologies that will redefine and shape the way we operate our offshore facilities. This takes into account crucial variables such as inventory management, logistics development and manning requirements which will influence our effectiveness and efficiency.

UNCONVENTIONAL HYDROCARBON RESOURCES

PETRONAS is also exploring unconventional hydrocarbon resources to create new, future-oriented portfolios. By leveraging on available opportunities, such monetisation will complement our conventional Upstream exploration and production activities.

Rapid advancements in fracking and subsurface modelling, to name a few, will reduce the high costs usually associated in the production of unconventional resources.

Furthermore, a bigger base of resources comprising unconventional and conventional reserves will allow PETRONAS to stay relevant and vibrant in the growing energy industry.

SPECIALTY CHEMICALS

In the petrochemical derivative and specialty chemical segment, PETRONAS has identified a range of products based on their potential to increase our profitability and capture new markets. Specialty chemicals currently account for 0.2 per cent of our total sales volume.

We aim to lift that contribution to 15 per cent in the next 20 years. This will be done through more marketing collaborations, greater field applications, pursuit of formula improvements with academic and professional bodies locally, regionally and internationally as well as embark on possible licensing opportunities.

FLUID TECHNOLOGY SOLUTIONS™

For four consecutive years, PETRONAS has powered the Mercedes-AMG PETRONAS Formula One™ team to become the F1® World Champion.

The winning formula is our consumer products, PETRONAS PRIMAX and PETRONAS Syntium. We have strengthened our R&D collaboration with PETRONAS Lubricants International Sdn Bhd (PLI), the global lubricant manufacturing and marketing arm of PETRONAS, to further advance our Fluid Technology Solutions™.

Other programmes in the field are designed to ensure long-term positioning for competitive, future-proof fluid solutions. This is carefully and deliberately done in order to cater to the orderly development of growing consumer needs ranging from compact, mid-tier to heavy duty engines.

Our facilities of the future **is expected to halve our operating costs by 2025**

For four consecutive years, **PETRONAS has powered the Mercedes-AMG PETRONAS Formula One™ team to become the F1® World Champion**

Moving forward, PETRONAS will continue to add value at every juncture, and contribute to long-term economic returns, in order to sustainably grow with the nation.

THE GLOBAL MARKET IN 2018

Despite volatility in the stock market at the start of 2018, global economic fundamentals remain strong, demonstrated by the continued expansion in services and manufacturing activities.

Economic growth is expected to accelerate to 3.9 per cent, the fastest since 2011, from 3.6 per cent in 2017, driven by synchronised expansion in both advanced and developing economies.

However, the risk of escalating trade tensions between major economies could slow the global growth momentum.

Primary energy demand is expected to increase in 2018 but at a slightly slower pace of 1.5 per cent because of higher energy efficiency. This is prevalent in the transport sector where cars are becoming lighter and more compact.

The oil market is tightening as global demand remains strong. Concurrently, the OPEC and non-OPEC alliance is expected to extend its commitment to cut output by 1.8 mbpd. As such, the oil price is expected to strengthen further but will remain volatile due to rising geopolitical crisis.

A further increase in oil prices hinges on continued global economic growth, driven by China and India, but price gains could be tempered by higher US oil production.

The East of Suez region is expected to add 610 kbpd of refining capacity in 2018, leading to higher demand for crude in the region. Some 330 kbpd is expected to be added in Asia Pacific and 280 kbpd in the Middle East.

In 2018, global ethylene demand is expected to increase by 5.4 per cent to 160 mtpa in line with robust GDP growth, driven by Asia Pacific, North America and the Middle East.

Matching that demand, ethylene capacity is expected to grow by 4.6 per cent to 178 mtpa with new projects in North America and Asia Pacific accounting for 90 per cent of that growth.

An abundance of low-cost ethane is enabling the US to strengthen its position as the world's key petrochemical player. The US will continue to be a source of new supply of ethylene and polyethylene, and 7.4 mtpa of capacity is expected to be onstream in 2018, which will account for 41 per cent of global expansion.

In the LNG industry, supply is expected to grow 9 per cent to surpass 300 mtpa for the first time. Additional LNG will come from the completion of projects in the US and Australia.

China will continue to drive the growth in demand for LNG, led by the nation's push for reduced emissions. This may lead to China overtaking Japan in 2018 as the world's largest gas importer. Europe may require more LNG as domestic gas production declines, especially in the Netherlands.

LNG prices will be subject to greater volatility as swings in seasonal demand become more extreme and buyers opt for more spot market purchases. Spot trade, almost non-existent two decades ago, currently accounts for about one fifth of the total LNG trade.

East of Suez's crude oil demand to **increase as refining capacity grows**

Abundance of low-cost ethane to **boost US position in global petrochemicals**

China to drive growth in **LNG demand**

Exploration and production capital expenditure is likely to stay at 40 per cent below the 2014 peak of almost USD800 billion as oil companies remain risk averse. This time, upstream players are focusing on short-cycle projects as they seek faster returns on the expectation of rising steel and labour costs.

The share of spending on unconventionals is expected to grow, climbing from 15 per cent in 2010 to one fifth in 2018.

The US remains the global hotspot for unconventional spending as international oil companies increase their investments in shale. Amidst upward pressure on costs, upstream players are leveraging on existing infrastructure for growth through brownfield expansions to achieve faster returns.

Companies continue to pursue technology advancements, the use of big data and collaboration to achieve optimisation and drilling efficiency.

Renewables such as solar and wind are expected to register further growth, supported by declining costs, better energy storage technology and greater investments by China, India, Japan and the US.

Costs are falling to a point where some projects including offshore wind are moving towards market-based pricing.

At the same time, digitalisation of the energy system is leading to increased adoption of smart meters and smart networks, improving overall efficiency and connectivity.

For 2018, the energy industry is expected to remain dynamic, underpinned by stronger demand for oil and gas, and further growth in renewables. The challenge is to manage risks arising from oil price volatility and cost escalation.

Technology advancements and use of big data will be key in **achieving optimisation and drilling efficiency**

SECTION III

OUR COMMITMENT TO SUSTAINABILITY

VALUE CREATION FOR SUSTAINABLE GROWTH

We aim for sustainable practices across the integrated value chain and constantly explore ways of contributing towards lasting growth.

SUSTAINABILITY AND PETRONAS

>> Efforts on sustainability are progressing in tandem with the changing dynamics across the wider social and environmental spheres. Our overarching commitment is to generate long-term socio-economic growth by upholding business agility.

Sustainability to us encompasses carrying out our business in a socially responsible and holistic manner to ensure continued growth and success for the benefit of the present and future generations where PETRONAS operates. The underlying aims are to create lasting social benefits; safeguard the health and safety of our employees, contractors and communities; minimise disruption to livelihood; lower our emissions; minimise our impact on ecosystems and biodiversity; and use energy, water and other resources efficiently.

Our focus on sustainability is multi-pronged and includes the type of energy resources we produce; our efforts in upholding operational excellence in the way we conduct our business; and our role in accelerating socio-economic growth as a responsible corporate citizen. The PETRONAS Code of Conduct and Business Ethics (CoBE) and nine key result areas of the PETRONAS Corporate Sustainability Framework, amongst others, guide us in driving lasting value creation across all parts of PETRONAS as we transition towards a low-carbon economy.

THE PETRONAS CORPORATE SUSTAINABILITY FRAMEWORK

SHAREHOLDER VALUE
Fulfilling our responsibility as a business entity to deliver returns to our shareholders through long-term creation of economic value.

NATURAL RESOURCE USE
Promoting optimum use of hydrocarbons and water in our operations through efficient processes and the application of technology.

CLIMATE CHANGE
Recognising our corporate responsibility as a key player in the global energy sector to balance the issue of climate change with the challenge of sustainably producing affordable and reliable energy.

BIODIVERSITY AND ECOSYSTEM SERVICES
Ensuring projects and operations do not have a significant impact on biodiversity and local ecosystems.

HEALTH, SAFETY AND ENVIRONMENT
Ensuring our facilities, products and services are in accordance with all legal requirements and the industry's best practices to safeguard the health, safety and wellbeing of our employees, contractors, communities and the local environment.

GOVERNANCE AND BUSINESS ETHICS
Safeguarding the organisation's integrity and trustworthiness in delivering value through strong governance mechanisms and ethical business practices.

HUMAN RIGHTS
Respecting internationally-recognised human rights in our areas of operations, complying with our Code of Conduct and Business Ethics, and all relevant legal requirements.

CORPORATE SOCIAL INVESTMENT
Investing in sustainable initiatives as a socially responsible company in line with our mission to contribute to the wellbeing of society.

WORKFORCE DEVELOPMENT
Equipping our workforce with the skills and mindset to deliver sustained high performance.

GOVERNING SUSTAINABILITY

The PETRONAS Corporate Sustainability Council (CSC) at the Group level continued to play a pivotal role in 2017. This included overseeing the integration and institutionalisation of sustainability actions across PETRONAS. Highlights in the period under review included the CSC's foresight towards:

PETRONAS *Carbon Commitments*
Enhanced to include elements such as renewables, carbon capture, utilisation and storage (CCUS), carbon pricing and offsets.

PETRONAS *Code of Conduct on Human Rights for Contractors*
Stipulates clear requirements across our business value chain in support of our commitment to human rights.

Sustainability Exchange
An inaugural engagement event to nurture deeper understanding through enriched discussions on sustainable development.

SUSTAINABILITY FOCUS

In 2017, we identified 10 material factors for PETRONAS, taking into consideration the interest of the wider group of stakeholders and our growth aspirations. An internal materiality assessment was conducted involving our Subject Matter Experts.

Material Factor	Snapshot of 2017
Climate Change	• Total greenhouse gas emissions of 54 million metric tonnes of carbon dioxide equivalent
	• Total solar energy produced of approximately 13,628 MWh from existing Solar PV investment projects
Environmental Management	• Total freshwater withdrawn stood at 55.91 Mm^3
	• Oil in water in wastewater recorded at 591 MT
	• Total estimated volume of hydrocarbon spills of 172.6 m^3
	• Total sulphur oxides and nitrogen oxides emissions of 87,917 metric tonnes and 159,498 metric tonnes, respectively
	• Total hazardous waste disposed of 19,755 MT
	• Continuous improvement of water practices in operations
Safety	• Total Reportable Case Frequency at 0.53
	• Total of 12 Tier 1 Process Safety Events
	• Total of 4 fatalities
	• Fatal Accident Rate at 0.93
	• Lost Time Injury Frequency at 0.17
Health, Wellness and Exposure Management	• Total Recordable Occupational Illness Frequency of 0.08
	• Endorsed the PETRONAS MESTIfit4health programme
	• Fortified Fatigue Management practices
	• Expanded reach of the office ergonomics initiative
Product Stewardship	• Ongoing Product Risk Assessments, Product Safety Data Sheets and Product Communication initiatives
	• The PETRONAS-Yale Scientific Collaboration on Reproductive Health Stewardship in unconventional oil and gas (UOG) operations
Security	• Established the PETRONAS Security Management System and Mandatory Minimum Security Standards
	• Conducted 154 asset classification exercises
	• Adopted a holistic approach to assess cyber-security controls
Human Rights	• Established and rolled-out the PETRONAS Code of Conduct on Human Rights for Contractors
Human Capital	• Rolled-out the PETRONAS 3P Leadership Model - *People-Centric, Passion, Performance*
	• A diverse employee base comprising more than 100 nationalities
Social Responsibility	• Invested more than RM230 million across various corporate social initiatives
	• Launched the PETRONAS Digital Procurement Programme
	• Spurred local socioeconomic developments through job creation, amongst others
Business Ethics and Compliance	• Obtained certification for International Organisation for Standardisation 370001 on Anti-Bribery Management System (ISO 37001)

For detailed insights, please refer to the PETRONAS Group Sustainability Report 2017 at www.petronas.com.

SECTION IV

EMBEDDING TRUST

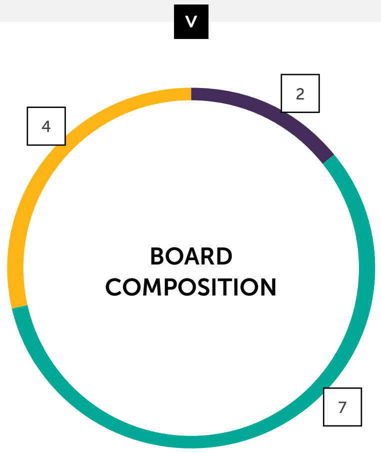
EXCELLENT CORPORATE GOVERNANCE

Generating and maintaining the trust of our stakeholders is central to our success. We benchmark ourselves against the best in the world and we implement a stringent internal code of conduct.

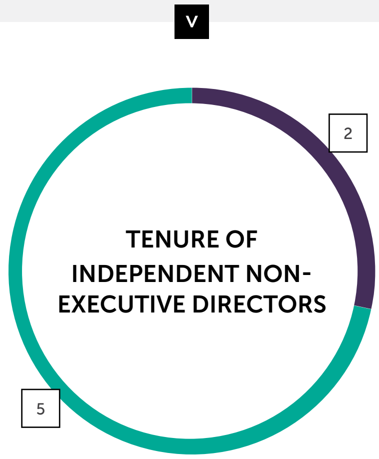
BOARD OF DIRECTORS
Information as at March 2018

BOARD COMPOSITION, DIVERSITY, SKILLS AND EXPERIENCE

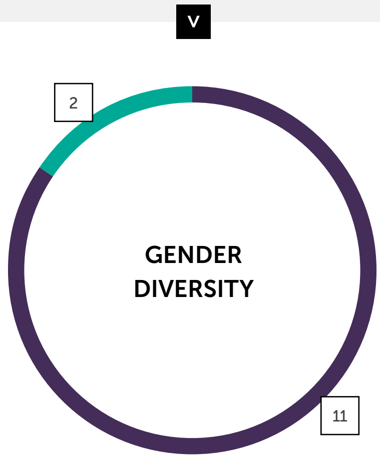
As at 31 December 2017



Executive Director	2
Independent Non-Executive Director	7
Non-Independent Non-Executive Director	4

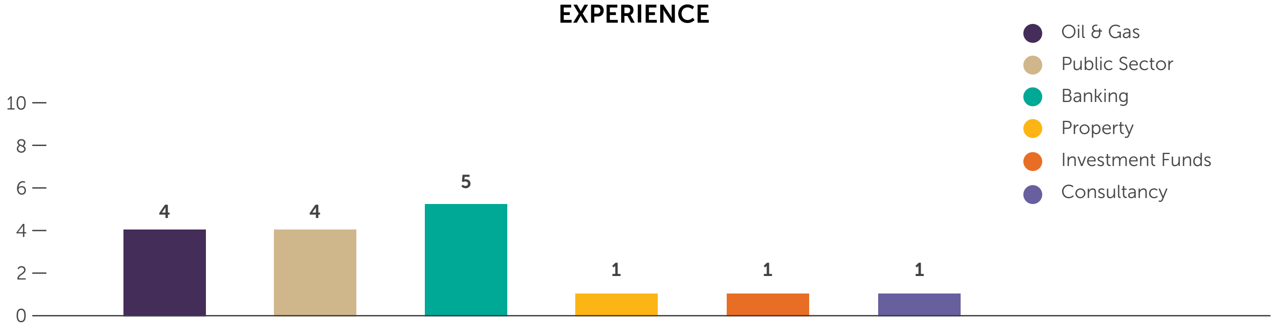


0-5 Years	2
6-8 Years	5

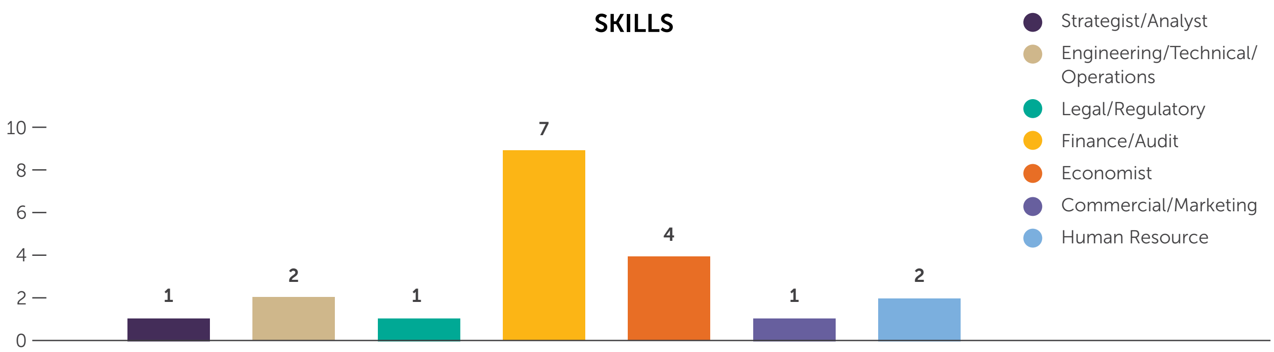


Male	11
Female	2

EXPERIENCE



SKILLS



C Chairman of Committee   A Member of Audit Committee   G Member of Governance and Risk Committee   R Member of Remuneration Committee

TAN SRI MOHD SIDEK HASSAN
Chairman of the PETRONAS Board

Board Meeting Attendance 12/12

Age	Gender	Nationality
67	Male	Malaysian

Date Appointed to the Board
1 July 2012

SKILLS & EXPERIENCE

Tan Sri Sidek served in the Administrative and Diplomatic Service of the Malaysian Civil Service for over 38 years, the last six as the Chief Secretary to the Government.

He has extensive working experience within the Ministry of International Trade and Industry (MITI), including postings at MITI offices in Japan, Sydney and Washington, DC. He was appointed as Deputy Secretary-General (Trade) in 2001 and as the Secretary-General in 2004.

Tan Sri Sidek served as the President of International Islamic University Malaysia between 2008 and 2013.

OTHER CURRENT APPOINTMENTS

- Pro-Chancellor of Universiti Teknologi PETRONAS
- Chairman of Yayasan PETRONAS
- Chairman of KLCC Property Holdings Berhad
- Chairman of KLCC (Holdings) Sdn Bhd
- Chairman of KLCC REIT Management Sdn Bhd
- Chairman of Malaysia Digital Economy Corporation Sdn Bhd

TAN SRI WAN ZULKIFLEE WAN ARIFFIN
Executive Director
President and Group Chief Executive Officer

Board Meeting Attendance 12/12

Age	Gender	Nationality
58	Male	Malaysian

Date Appointed to the Board
1 August 2007

SKILLS & EXPERIENCE

Tan Sri Wan Zulkiflee Wan Ariffin began his career with PETRONAS in 1983 as a Process Engineer. His prior positions include Executive Assistant to the President; General Manager, International Projects Management Division of OGP Technical Services; and General Manager for the Strategy and Business Development Unit.

He then served as the Managing Director and Chief Executive Officer of PETRONAS Gas Berhad and later became the Vice President of Gas Business.

In 2010, he was appointed Executive Vice President and Chief Executive Officer of Downstream Business and as the Chairman of PETRONAS Chemicals Group Berhad and PETRONAS Dagangan Berhad. He also assumed the additional role of Chief Operating Officer of PETRONAS in 2012.

OTHER CURRENT APPOINTMENTS

- Chairman of National Trust Fund
- Council Member of the East Coast Economic Region Development Council (ECERDC) and Chairman of the ECERDC Audit Committee
- Pro-Chancellor of Universiti Teknologi PETRONAS
- Member of the Global Science and Innovation Advisory Council (GSIAC)
- Advisory Council member of the National Institute of Public Administration (INTAN)
- Member of the Board of Trustees for the Razak School of Government
- Member of the Board of Trustees for Merdeka Award

C Chairman of Committee   A Member of Audit Committee   G Member of Governance and Risk Committee   R Member of Remuneration Committee

TAN SRI DR MOHD IRWAN SERIGAR ABDULLAH

Non-Independent, Non-Executive Director

A

Board Meeting Attendance 4/12

Age	Gender	Nationality
61	Male	Malaysian

Date Appointed to the Board

28 November 2012

SKILLS & EXPERIENCE

Tan Sri Dr Mohd Irwan Serigar is currently Secretary General of Treasury, Ministry of Finance, a position he has held since 2012. His career in the civil service began in 1984 when he joined the Malaysian Administrative and Diplomatic Service as Assistant Director, Regional Economics Division in the Economic Planning Unit (EPU) of the Prime Minister's Department. He served in various positions in the EPU before joining the Ministry of Finance in 2003 as Principal Assistant Secretary, Economic and International Division.

OTHER CURRENT APPOINTMENTS

- Board Member of Permodalan Nasional Berhad
- Board Member of Khazanah Nasional Berhad
- Board Member of Lembaga Tabung Haji
- Board Member of Mass Rapid Transit Corporation Sdn Bhd
- Board Member of Bank Negara Malaysia
- Chairman of Kumpulan Wang Persaraan (Diperbadankan)
- Chairman of Lembaga Hasil Dalam Negeri
- Chairman of Malaysian Global Innovation and Creativity Centre
- Chairman of Malaysia Rail Link Sdn Bhd

TAN SRI MUHAMMAD IBRAHIM

Independent Non-Executive Director

G

Board Meeting Attendance 12/12

Age	Gender	Nationality
58	Male	Malaysian

Date Appointed to the Board

28 April 2010

SKILLS & EXPERIENCE

Tan Sri Muhammad's areas of expertise include financial markets, foreign exchange, reserve management, payment and settlement systems, banking and insurance. He was appointed Governor of Bank Negara Malaysia on 1 May 2016. He is the Chairman of the Monetary Policy Committee and the Financial Stability Committee.

OTHER CURRENT APPOINTMENTS

- Chairman of the Labuan Financial Services Authority
- Chairman of International Centre for Education in Islamic Finance
- Member of the Malaysian Institute of Accountants
- Trustee of the National Trust Fund
- Fellow of Asian Institute of Chartered Bankers

C Chairman of Committee A Member of Audit Committee G Member of Governance and Risk Committee R Member of Remuneration Committee

TAN SRI AMIRSHAM A AZIZ
Independent Non-Executive Director

C G

Board Meeting Attendance 11/12

Age	Gender	Nationality
68	Male	Malaysian

Date Appointed to the Board
21 October 2011

SKILLS & EXPERIENCE

Tan Sri Amirsham began his career with Maybank Group in 1977 where he held various senior positions. He served as the President and Chief Executive Officer of Maybank for a period of 14 years from 1994 to 2008. He was appointed a Minister in the Prime Minister's Department on March 2008 in charge of the Economic Planning Unit and the Department of Statistics until April 2009. He served as the Chairman of the National Economic Advisory Council between June 2009 and May 2011.

He is the Chairman of PETRONAS Board Governance and Risk Committee since 2015.

OTHER CURRENT APPOINTMENTS

- Chairman of Bursa Malaysia Berhad
- Chairman of Malaysian Investment Development Authority
- Chairman of Themed Attractions Resorts and Hotels Sdn Bhd
- Non-Executive Director of RAM Holdings Berhad
- Non-Executive Director of Samling Global Limited
- Non-Executive Director of CapitaLand Limited, Singapore

DATO' MOHAMAD IDRIS MANSOR
Independent Non-Executive Director

C A | R

Board Meeting Attendance 12/12

Age	Gender	Nationality
74	Male	Malaysian

Date Appointed to the Board
28 April 2010

SKILLS & EXPERIENCE

Dato' Mohamad Idris has extensive experience in the oil and gas industry and has held various senior management positions within PETRONAS Group, including Senior Vice President, Exploration & Production Business. He also served as the International Business Advisor to PTT Exploration and Production Public Company of Thailand.

He is the Chairman of PETRONAS Board Audit Committee since 2015.

OTHER CURRENT APPOINTMENTS

- Board Member of PETRONAS Carigali Sdn Bhd

C Chairman of Committee   A Member of Audit Committee   G Member of Governance and Risk Committee   R Member of Remuneration Committee

KRISHNAN A/L CK MENON

Independent Non-Executive Director

A | G

Board Meeting Attendance 12/12

Age	Gender	Nationality
68	Male	Malaysian

Date Appointed to the Board

28 April 2010

SKILLS & EXPERIENCE

Prior to joining PETRONAS, Krishnan CK Menon spent 13 years in public practice with Hanafiah Raslan & Mohamad, seven years as a partner. He then joined Public Bank Berhad as General Manager and was later promoted to Executive Vice President. In 1997, he joined Putrajaya Holdings Sdn Bhd as Chief Operating Officer before leaving the company in 2000.

OTHER CURRENT APPOINTMENTS

- Chairman of Scicom (MSC) Berhad
- Chairman of Econpile Holdings Berhad

DATUK MOHD OMAR MUSTAPHA

Independent Non-Executive Director

C R

Board Meeting Attendance 12/12

Age	Gender	Nationality
47	Male	Malaysian

Date Appointed to the Board

15 September 2009

SKILLS & EXPERIENCE

Datuk Mohd Omar has enjoyed a career spanning two decades as a strategy consultant serving in a number of senior roles at McKinsey and Ethos. He was elected by the World Economic Forum as a 2007 Young Global Leader and is a 2008 Eisenhower Fellow. He also previously served on the Advisory Council of the Institute for Democracy and Economic Affairs and on the boards of AirAsia Bhd and Symphony House Bhd.

Datuk Mohd Omar has been Chairman of PETRONAS Board Remuneration Committee since 2015.

OTHER CURRENT APPOINTMENT

- Chairman of PETRONAS Management Training Sdn Bhd

C Chairman of Committee   A Member of Audit Committee   G Member of Governance and Risk Committee   R Member of Remuneration Committee

TAN SRI ZARINAH ANWAR

Independent Non-Executive Director

A | R

Board Meeting Attendance 12/12

Age	Gender	Nationality
65	Female	Malaysian

Date Appointed to the Board

17 August 2015

SKILLS & EXPERIENCE

Tan Sri Zarinah is the former Chairman of the Securities Commission Malaysia (SC), a position she held for six years until her retirement in March 2012. Prior to joining the SC in 2002, Tan Sri Zarinah was Deputy Chairman of Shell Malaysia. She had spent 22 years with the Shell Group serving in various capacities.

OTHER CURRENT APPOINTMENTS

- Chairman of Malaysia Debt Ventures Berhad
- Board Member of Permodalan Nasional Berhad
- Trustee of the Razak School of Government
- Trustee of Yayasan Hasanah
- Trustee of Jeffrey Cheah Foundation
- Pro-Chancellor of Universiti Teknologi MARA
- Member of the Academic Advisory Council of Universiti Teknologi PETRONAS
- Abdullah bin Abdulaziz Fellow, Oxford Centre for Islamic Studies, United Kingdom
- Co-Founding Chairs of the 30% Club, Malaysia

DATO' SRI SHARIFAH SOFIANNY SYED HUSSAIN

Independent Non-Executive Director

A | R

Board Meeting Attendance 12/12

Age	Gender	Nationality
56	Female	Malaysian

Date Appointed to the Board

1 October 2015

SKILLS & EXPERIENCE

Dato' Sri Sharifah Sofianny Syed Hussain holds 18 years of leadership roles in the business world of stockbroking and wholesale banking. After an 11-year stint in Shell Malaysia, she served K&N Kenanga Berhad and JF Apex Securities before being appointed as Maybank's Deputy Managing Director, Equities in year 2011 and rose to become the Managing Director, Head of Institutional Equities.

Her continuous improvement initiatives have led to the bank winning many prestigious awards and in 2014, she stepped into the role of Managing Director of Client Coverage, at Maybank Global Banking. Dato' Sri Sharifah Sofianny was responsible for growing Maybank's client network in the ASEAN region through innovative solutions and high performance service standards.

OTHER CURRENT APPOINTMENTS

- Board Member of ValueCap Asset Managers Sdn Bhd
- Board Member of Maybank Investment Bank Berhad
- Chairman of the Industry Advisory Panel for Bachelor of Finance at Universiti Tenaga Nasional (UNITEN)

C Chairman of Committee   A Member of Audit Committee   G Member of Governance and Risk Committee   R Member of Remuneration Committee

DATUK MANHARLAL RATILAL
Executive Director
Executive Vice President and Group Chief Financial Officer

Board Meeting Attendance 11/12

Age	Gender	Nationality
59	Male	Malaysian

Date Appointed to the Board
8 May 2015

SKILLS & EXPERIENCE

Datuk Manharlal Ratilal is Executive Vice President and Group Chief Financial Officer. He serves on the Board of Directors and is also a member of the Executive Leadership Team. He joined PETRONAS as Vice President, Finance in 2003.

Prior to this, he was attached to a local merchant bank for 18 years. He was the bank's Managing Director for five years, during which time he specialised in corporate finance, advising on mergers and acquisitions and capital markets.

OTHER CURRENT APPOINTMENTS

- Board Member of Cagamas Holdings Berhad
- Board Member of Capital Market Development Fund
- Board Member of MISC Berhad
- Board Member of KLCC Property Holdings Berhad

TAN SRI DATUK AMAR HAJI MOHAMAD MORSHIDI ABDUL GHANI
Non-Independent, Non-Executive Director

Board Meeting Attendance 7/12

Age	Gender	Nationality
62	Male	Malaysian

Date Appointed to the Board
1 November 2016

SKILLS & EXPERIENCE

Tan Sri Datuk Amar Haji Mohamad Morshidi is the State Secretary of Sarawak. He served as the Deputy State Secretary from 2007 until 2009.

He held various senior positions in the Chief Minister's Department including Director of Human Resource and Human Resource Development Unit, and Director of the State Planning Unit. He was previously Director of the Commission of the City of Kuching North and Permanent Secretary of the Ministry of Social Development.

OTHER CURRENT APPOINTMENTS

- Board Member of Sarawak Energy Berhad
- Board Member of Bintulu Port Holdings Berhad

C Chairman of Committee   A Member of Audit Committee   G Member of Governance and Risk Committee   R Member of Remuneration Committee

DATUK PENGIRAN HASSANEL BIN DATUK PENGIRAN HAJI MOHD TAHIR

Non-Independent, Non-Executive Director

Board Meeting Attendance 9/12

Age	Gender	Nationality
60	Male	Malaysian

Date Appointed to the Board

1 November 2016

SKILLS & EXPERIENCE

Datuk Pengiran Hassanel is the Permanent Secretary to the Sabah Ministry of Finance. Prior to this, he served as the Permanent Secretary to the Sabah Ministry of Infrastructure Development and Director of the State Economic Planning Unit.

OTHER CURRENT APPOINTMENTS

- Board Member of Warisan Harta Sabah Sdn Bhd
- Board Member of Sabah Ports Sdn Bhd
- Board Member of Sabah Development Bank Berhad
- Board Member of Sabah Energy Corporation Sdn Bhd
- Chairman of Tun Fuad Foundation

DATO' KHODIJAH BINTI ABDULLAH

Alternate Director to Tan Sri Dr Mohd Irwan Serigar Abdullah

Board Meeting Attendance 5/12

Age	Gender	Nationality
60	Female	Malaysian

Date Appointed to the Board

12 October 2015

SKILLS & EXPERIENCE

Dato' Khodijah Abdullah is the Under Secretary of the Tax Division at Ministry of Finance Malaysia (MOF). She began her civil service career in 1983 as Assistant Director in the Industries Division of the Ministry of International Trade and Industry and moved to the Tax Division of the MOF in 1989.

Her expertise includes policies on manufacturing licenses, tax incentives, domestic and international trade and investment as well as for agreements on taxation matters.

She leads the Malaysian delegation tasked to negotiate the Agreement for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, and the Tax Information Exchange Agreement. She has also negotiated agreements at multilateral levels including the World Trade Organisation's General Agreement on Tariffs and Trade.

C Chairman of Committee A Member of Audit Committee G Member of Governance and Risk Committee R Member of Remuneration Committee

HALIMATUN SA'ADIAH ABDUL HALIM
Secretary

Age	Gender	Nationality
44	Female	Malaysian

Date Appointed to the Board
22 June 2017

SKILLS & EXPERIENCE

Halimatun Sa'adiah is the Company Secretary of PETRONAS and is the Secretary to the PETRONAS Board of Governance and Risk Committee and PETRONAS Board Remuneration Committee. She is the Head of Legal Corporate Governance and Secretariat, Group Legal.

She joined PETRONAS in 1997 and has served in various positions within the company. Her areas of expertise include corporate law, mergers and acquisitions, corporate governance and compliance.

ABDUL RAHMAN MUSA @ ONN
Secretary

Age	Gender	Nationality
61	Male	Malaysian

Date Appointed to the Board
5 July 2012

SKILLS & EXPERIENCE

Abdul Rahman Musa is the Joint Company Secretary to PETRONAS and Secretary to the PETRONAS Executive Leadership Team. He is the Head of Group Secretarial and Board Governance, Group Legal. He joined PETRONAS in 1981 and has been with the Company for over 30 years. His areas of legal expertise include corporate law, company secretarialship, corporate governance and compliance.

EXECUTIVE LEADERSHIP TEAM
Information as at March 2018

DELIVERING OUR VISION AND MANAGING A MORE AGILE ORGANISATION

Maliki Kamal Mohd Yasin
Vice President and Group General Counsel, Group Legal

Mohamed Firouz Asnan
Senior Vice President, Corporate Strategy

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

Datuk Mohd Anuar Taib
Executive Vice President and Chief Executive Officer, Upstream

Tan Sri Wan Zulkiflee Wan Ariffin
President and Group Chief Executive Officer

Datuk Md Arif Mahmood
Executive Vice President and Chief Executive Officer, Downstream

Datuk Manharlal Ratilal
Executive Vice President and Group Chief Financial Officer, Group Finance

Mazuin Ismail
Senior Vice President, Project Delivery and Technology

TAN SRI WAN ZULKIFLEE WAN ARIFFIN

President and Group Chief Executive Officer

Age 58, Malaysian

Appointed on 1 April 2015

Refer to page 87.

DATUK MOHD ANUAR TAIB

Executive Vice President and Chief Executive Officer, Upstream

Age 50, Malaysian

Appointed on 1 April 2016

Datuk Mohd Anuar Taib joined the industry in 1990 with an international oil and gas company in various technical, commercial, and leadership roles prior to joining PETRONAS in July 2012.

He serves as Chairman of the Board of PETRONAS Gas Berhad, PETRONAS LNG Sdn Bhd, MLNG Group of Companies, Progress Energy Canada Ltd, Pacific NorthWest LNG Ltd and various other PETRONAS Boards of subsidiaries and Joint Venture Companies. He is also the Chairman of the Society of Petroleum Engineers (SPE) Asia Pacific Advisory Council and Council Member, Masters of Analytical Chemistry Programme for University Putra Malaysia.

DATUK MD ARIF MAHMOOD

Executive Vice President and Chief Executive Officer, Downstream

Age 55, Malaysian

Appointed on 1 April 2016

Datuk Md Arif Mahmood has more than 33 years of experience in the oil, gas and petrochemical industries. Prior to his current role, he was the Senior Vice President of Corporate Strategy and Risk, and the Vice President of oil business, PETRONAS. He has also held other various senior management positions in PETRONAS Gas Berhad, Engen Petroleum Limited, PETRONAS Dagangan Berhad, and ASEAN Bintulu Fertilizer Sdn Bhd.

He sits on the Board of various PETRONAS subsidiaries, JV companies, and he is the Chairman of PETRONAS Dagangan Berhad, PETRONAS Chemicals Group Berhad, BASF PETRONAS Chemicals Sdn Bhd, PRPC Refinery Cracker Sdn Bhd, PRPC Polymers Sdn Bhd and a board member of PETRONAS Carigali Sdn Bhd. He also serves as a member of the Universiti Teknologi PETRONAS (UTP) Industry Advisory Panel.

Datuk Arif worked closely with the Boston Consulting Group (BCG) and McKinsey & Company when he was a PETRONAS Corporate Strategy Study member in 1995, Director in 2002, and Steering Committee member in 2008. In 2012, he led the PETRONAS team in the acquisition of Canada's Progress Energy Inc, and recently the completion of the venture with Saudi Aramco.

DATUK MANHARLAL RATILAL

Executive Vice President and Group Chief Financial Officer, Group Finance

Age 56, Malaysian

Appointed on 8 May 2015

Refer to page 92.

DATO' RAIHA AZNI ABD RAHMAN

Senior Vice President, Group Human Resource Management

Age 58, Malaysian

Appointed on 16 April 2014

Dato' Raiha Azni has been in the Human Resource Management fraternity for 34 years, assuming her current position in 2014. Prior to this, she served as Vice President of Group Human Resource Management Division in 2012. She has held various leadership positions in PETRONAS' Exploration and Production Business; PETRONAS Carigali Sdn Bhd; PETRONAS Gas Bhd; and Malaysian International Trading Corporation Sdn Bhd.

Dato' Raiha is also a council member of the Malaysian Employers Federation; Industry Advisory Council; Department of Polytechnic Education, Ministry of Higher Education. She is also a member of *Majlis Penasihat Pendidikan Kebangsaan (MPPK)*, Ministry of Education and a Board member of the Board of Studies for the Master of Human Resource Development programme, Universiti Putra Malaysia. She also holds the Chairmanship of the Board of Directors for Institut Teknologi Petroleum PETRONAS Sdn Bhd and PETRONAS Technical Training Sdn Bhd. Additionally, she serves as a Director on the Boards of PETRONAS Management Training Sdn Bhd; the Malaysian Maritime Academy; and PETRONAS Lubricants International.

MOHAMED FIROUZ ASNAN

Senior Vice President, Corporate Strategy

Age 52, Malaysian

Appointed on 1 July 2017

Mohamed Firouz Asnan is currently the Senior Vice President of Corporate Strategy at PETRONAS.

He joined PETRONAS in 1989 as a facilities engineer in the Exploration and Production Division. Throughout the 29 years of his career in PETRONAS, he has progressed through a series of domestic and international assignments spanning both Upstream and Downstream businesses including stints in Corporate Planning and Development Division. Amongst several leadership positions he has held includes General Manager of Business Development Unit, Corporate Planning and Development Division, Country Chairman of PETRONAS Vietnam and Chairman of PETRONAS Sabah & Labuan. In 2015, Firouz joined the Downstream Business where he was appointed as the Vice President of Oil Business and later Vice President of Refining & Trading in April 2016.

Firouz is a registered professional engineer and a member of Institution of Engineers, Malaysia.

v

MAZUIN ISMAIL

Senior Vice President, Project Delivery and Technology

Age 50, Malaysian

Appointed on 16 April 2016

Mazuin Ismail leads the Project Delivery and Technology division, a Centre of Excellence for engineering, procurement, project execution and technology in PETRONAS since April 2016. Leading up to his appointment to the current position, Mazuin was Vice President of Technical Global, a division tasked to ensure the adoption of PETRONAS' best practices in projects and engineering, drilling, petroleum engineering technology, technical data and operational excellence, throughout its operations worldwide.

With more than 26 years of experience, Mazuin's career includes project execution and engineering as well as internal audit and governance; and business development. He has also taken on leadership roles in the areas of petroleum management, strategic planning and change management.

v

MALIKI KAMAL MOHD YASIN

Vice President and Group General Counsel, Group Legal

Age 54, Malaysian

Appointed on 1 June 2017

Maliki Kamal Mohd Yasin leads PETRONAS Group Legal since 1 June 2017. Leading up to his appointment as the Vice President and Group General Counsel, Maliki has served various leadership positions in PETRONAS, including as Head of Legal and Corporate Secretariat of PETRONAS Chemicals Group following the successful completion of the IPO, General Counsel of RAPID Project, Head of Legal Finance and Secretariat during which time he also served as the Company Secretary of PETRONAS and Head of Legal Downstream, Finance and Technology prior to being made the Vice President and Group General Counsel.

Joining PETRONAS in 1990, Maliki has more than 28 years of experience in various legal areas and is a licensed Company Secretary. He serves as a Board Member in several PETRONAS' subsidiary companies such as PETRONAS Hartabina Sdn. Bhd., PETRONAS Lubricants India Private Ltd, Malaysian Jet Services Sdn. Bhd. and Energas Insurance (L) Limited. He is also the Company Secretary to various PETRONAS' subsidiaries.

CORPORATE GOVERNANCE AT PETRONAS

CORPORATE GOVERNANCE OVERVIEW

PETRONAS continues to uphold the highest standards of corporate governance as it firmly believes that these are vital to the Group's ability in creating value and improving efficiencies, whilst maintaining accountability and transparency in all business dealings. PETRONAS' continuous commitment in fostering a culture of integrity, ethical behavior and professionalism underpins its ability to deliver and sustain its performance to meet the challenges of the future.

PETRONAS BOARD GOVERNANCE FRAMEWORK

The Board recognises that having an established and clearly defined roles and responsibilities of the Board and the management is important to strike a reasonable balance between the strategy foundation and policy-making on the one hand, and the conformance roles of executive supervision and accountability on the other.

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

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

There is a clear separation of the positions and roles between the Chairman and the President and Group Chief Executive Officer to promote greater accountability and enhance check and balance. The positions of the Chairman and the President and Group CEO are held by two different individuals.

The Chairman provides leadership and guidance to the Board to enable members to make considered decisions on all Board reserved matters. His roles, amongst others, are to facilitate the meeting process and ensure that the Board and its Committees function effectively including providing guidance on governance. The Chairman sets the agenda for the meeting in accordance with the Board Charter and together with the Company Secretary, ensures that the Board members receive regular and timely information regarding the Company prior to Board meetings. Board members also have access to the Company Secretary for any further information they may require.

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

THE BOARD

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

As at 31 December 2017, the Board comprising 13 members was made up of the Non-Independent Non-Executive Chairman, the President and Group CEO, one Executive Director and ten Non-Executive Directors of which seven were Independent Directors.

A list of the current Directors, with their biographies, is provided on pages 86 to 94.

Board Charter

The Board is guided by the Board Charter which sets out the Board's strategic intent and provides guidelines on the Board's roles and responsibilities. The roles of the Chairman as well as the President and Group CEO are also described in the Board Charter.

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

Matters reserved for the Board include, amongst others, strategy and management matters such as long term objectives and strategy of the Company, policies, annual budgets, major investment decisions on matters such as capital projects, mergers and acquisition, as well as matters relating to funding requirements. It also includes financial, governance and risk matters, such as financial reporting and control and enterprise risk management. Corporate matters such as reputation and stakeholder management, HSE, board and board committee membership, Directors' remuneration and succession planning are also amongst the items for the Board's consideration.

Board Balance and Independence

In line with the spirit of the Malaysian Code of Corporate Governance, the Company has in place the selection criteria for the appointment and re-appointment of Directors. The Directors are assessed annually in accordance with the Guiding Principles of the PETRONAS Board Assessment Procedures. The findings are analysed and consolidated in a performance report which is tabled at the Board Governance and Risk Committee (BGRC) for review before it is subsequently presented to the Board.

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

The Non-Executive Directors combine broad business and commercial experience with independent and objective judgment. The balance between the Non-Executive and Executive Directors enables the Board to provide clear and effective leadership and maintain the highest standards of integrity across the Company's business activities. The composition of the Board and their skills and experience are as depicted on page 86.

The Company also has in place an Independent Directors' Guidelines (Guidelines) and the Independent Directors' Review. The Guidelines governs amongst others, the tenure of Independent Non-Executive Directors. The independence assessment of the Independent Non-Executive Directors is a two-tier assessment and is carried out annually.

As at 31 December 2017, there are seven Independent Non-Executive Directors and four Non-Independent Non-Executive Directors.

Board Assessment

The Board recognises the importance of Board assessment to provide the opportunity to enhance its effectiveness and to better understand its own roles and responsibilities. The assessment gives an indication as to whether the Board and the various Board Committees are performing effectively, and are of the right size, composition, skills mix and competencies to effectively discharge its fiduciary and leadership duties.

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

For the year under review, the Directors agreed that the information provided to the Directors are adequate and sufficient, that there is appropriate frequency and proper planning of Board meetings, that there is accessibility to the Board Chairman and that there is an open communication environment during the Board meetings. The Board always acts in the best interest of the Company and upholds high ethical and corporate standards at all times. It can be evidenced by the Board's willingness to participate in periodical Assets Declaration.

The Directors demonstrate the highest level of integrity (including maintaining utmost confidentiality and identifying, disclosing and managing conflict of interest).

The results of the Board Committee Assessment demonstrated that the Board Audit Committee (BAC), the BGRC and Board Remuneration Committee (REMCO) had carried out their duties effectively based on their respective Terms of Reference. Each Board Committee has properly discharged its respective responsibilities, deployed resources and expertise and has provided appropriate reporting and recommendations to the Board.

Board Remuneration

The Board has developed the PETRONAS Non-Executive Directors Remuneration Package to ensure PETRONAS has in place remuneration policies and procedures to attract and retain its Non-Executive Directors.

Onboarding Programme and Board Continuous Training

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

The Board members also participate in the PETRONAS Board Excellence programme, a collaboration with the PETRONAS Leadership Centre (PLC) and Institute of Corporate Directors Malaysia (formerly known as Malaysian Directors Academy (MINDA)). This structured training programme is not only for the PETRONAS Board members, but is also for all PETRONAS Directors Groupwide.

The suite of programmes aims to provide a structured development for directors through the creation of platforms for insightful knowledge exchange, sharing of experiences and harnessing skills for board effectiveness.

The PETRONAS Board Excellence programme focuses on specific topics to elevate directors' knowledge and skills on the best practices on Board effectiveness.

The Company also provides in-house onboarding programmes to newly appointed directors. The onboarding serves as an introductory programme to the new directors on the Company's overall business as well as an overview of PETRONAS governance framework, which includes the PETRONAS Code of Conduct and Business Ethics (CoBE), PETRONAS No Gift Policy, Anti-Bribery and Corruption Policy and Guidelines (ABC Manual), PETRONAS Whistleblowing Policy, PETRONAS Competition Law Guidelines and PETRONAS Economic Sanctions and Export Control Policy & Guidelines amongst others.

Board Meetings and Attendance

The Board met a total of 12 times including Special Board Meetings during the year.

Prior to Board meetings, the Non-Executive Directors, meet to discuss issues relevant to the Company.

Details of Directors' attendance at Board Meetings during the year 2017 are as follows:

Member	Designation	Total Attendance	
Tan Sri Mohd Sidek Hassan	Chairman	100%	12/12
Tan Sri Wan Zulkiflee Wan Ariffin	President	100%	12/12
Tan Sri Dr Mohd Irwan Serigar Abdullah *(and his alternate Dato' Khodijah Abdullah)*	Non-Independent Non-Executive Director	75%	9/12
Tan Sri Muhammad Ibrahim	Independent Non-Executive Director	100%	12/12
Tan Sri Amirsham A Aziz	Independent Non-Executive Director	91.6%	11/12
Dato' Mohamad Idris Mansor	Independent Non-Executive Director	100%	12/12
Tan Sri Dato' Seri Haji Megat Najmuddin Datuk Seri Dr Haji Megat Khas *(resigned wef 25 April 2017)*	Independent Non-Executive Director	100%	3/3
Mr Krishnan A/L CK Menon	Independent Non-Executive Director	100%	12/12
Datuk Mohd Omar Mustapha	Independent Non-Executive Director	100%	12/12
Tan Sri Zarinah Anwar	Independent Non-Executive Director	100%	12/12
Dato' Sri Sharifah Sofianny Syed Hussain	Independent Non-Executive Director	100%	12/12
Datuk Manharlal Ratilal	Executive Director	91.6%	11/12
Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani	Non-Independent Non-Executive Director	58.3%	7/12
Datuk Pengiran Hassanel Bin Datuk Pengiran Haji Mohd Tahir	Non-Independent Non-Executive Director	75%	9/12
TOTAL BOARD MEETINGS HELD IN FY2017			**12**

Conflict of Interest

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

The Company also disseminates the approved disclosure forms annually to ensure the Directors update their disclosures pursuant to the Companies Act, 2016, and the CoBE. The Company also maintains the Directors Register of Interest pursuant to the above requirements.

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

Re-election and Re-appointment

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

In light of the above, at the 2018 AGM which was held on 22 May 2018, Tan Sri Muhammad Ibrahim, Tan Sri Zarinah Anwar and Dato' Sri Sharifah Sofianny Syed Hussain retired pursuant to Article 71(1) of the Company's Articles of Association and were subsequently re-elected.

BOARD COMMITTEES

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

Board Audit Committee

The PETRONAS Board Audit Committee assists the Board in fulfilling its oversight functions in relation to internal controls and financial reporting of the Company. The Committee provides the Board with the assurance of the quality and reliability of the financial information reported by the Company whilst promoting efficiency and good governance practices to ensure the proper conduct and safeguarding of PETRONAS' assets.

The Board Audit Committee comprises entirely of Non-Executive Directors. The members of the Board Audit Committee are as shown on pages 86 to 94.

In 2017, the Board Audit Committee convened 11 times to deliberate on a total 73 papers comprising the audit reports, Group quarterly financial results as well as other Group Internal Audit performance reports. The members' attendance at meetings during 2017 are as follows:

BOARD AUDIT COMMITTEE

Member	Total Attendance	
Dato' Mohamad Idris Mansor (Chairman)	90.9%	10/11
Mr Krishnan A/L CK Menon	81.8%	9/11
Tan Sri Zarinah Anwar	90%	10/11
Tan Sri Dr Mohd Irwan Serigar Abdullah	36.3%	4/11
Dato' Sri Sharifah Sofianny Syed Hussain	100%	11/11
TOTAL MEETINGS HELD IN FY2017		**11**

Board Governance and Risk Committee

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

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

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

The members of the Board Governance and Risk Committee are as shown on pages 86 to 94.

In 2017, the Committee met a total of 7 times. The members' attendance at meetings during financial year ended 2017 are as follows:

BOARD GOVERNANCE AND RISK COMMITTEE

Member	Total Attendance	
Tan Sri Amirsham A Aziz (Chairman)	100%	7/7
Tan Sri Dato' Seri Haji Megat Najmuddin Datuk Seri Dr Haji Megat Khas *(resigned wef 25 April 2017)*	50%	1/2
Tan Sri Muhammad Ibrahim	100%	7/7
Mr Krishnan A/L CK Menon	85.7%	6/7
TOTAL MEETINGS HELD IN FY2017		**7**

Board Remuneration Committee

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

The Committee also oversees the development of a succession management plan for the President and Group CEO and Top Management as well as Top Management's appointments or renewal.

The members of the Board Remuneration Committee are as shown on pages 86 to 94.

In 2017, the Committee met a total of seven times. The members' attendance at meetings during financial year ended 2017 are as follows:

BOARD REMUNERATION COMMITTEE

Member	Total Attendance	
Datuk Mohd Omar Mustapha (Chairman)	100%	7/7
Dato' Mohamad Idris Mansor	85.7%	6/7
Tan Sri Zarinah Anwar	100%	7/7
Dato' Sri Sharifah Sofianny Syed Hussain *(appointed wef 25 April 2017)*	100%	4/4
TOTAL MEETINGS HELD IN FY2017		**7**

EXECUTIVE LEADERSHIP TEAM

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

The President and Group CEO chairs the ELT meetings and during the year under review, 18 meetings were held.

The members of the ELT are as shown on pages 95 to 98.

ANNUAL GENERAL MEETING

The AGM was held on 22 May 2018 in accordance with the legal and regulatory requirements prescribed by the Companies Act, 2016.

BUSINESS ETHICS AND COMPLIANCE

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

CODE OF CONDUCT AND BUSINESS ETHICS	ANTI-BRIBERY AND CORRUPTION COMPLIANCE PROGRAMME	WHISTLEBLOWING POLICY AND PROCEDURES
COMPETITION LAW COMPLIANCE PROGRAMME	**A COMMITMENT TO INTEGRITY**	PETRONAS RAID PROTOCOL
INTERNATIONAL ECONOMIC SANCTIONS AND EXPORT-CONTROL COMPLIANCE PROGRAMME	HUMAN RIGHTS COMPLIANCE	PERSONAL DATA PROTECTION COMPLIANCE

CODE OF CONDUCT AND BUSINESS ETHICS

The Code of Conduct and Business Ethics (CoBE) is a commitment by PETRONAS to achieve excellent corporate governance that emphasises and advances the principle of discipline and integrity that are critical to the success and well-being of the Group. The CoBE applies to all employees, directors and third parties who represent or act for the Group.

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

Since its launch on 1 April 2012, PETRONAS has communicated the CoBE to all employees through a series of training programmes, including its onboarding programme for new executives. For the year 2017, a total number of 5,533 employees have undergone face-to-face training, refresher training and onboarding training on the CoBE.

In reaching out to more employees that are located in various locations globally, PETRONAS will continuously improve the CoBE e-learning platform to effectively manage PETRONAS' Groupwide compliance programme.

The CoBE is accompanied by a CoBE Guide that sets out the FAQs, together with a list of "Do's and Don'ts" in relation to certain specific situations. In view of the CoBE's global application across the Group in all countries where we have operations, some provisions of the CoBE are modified in the Country Supplements to adapt the CoBE to the requirements of the local jurisdictions. The Country Supplements are in the process of being implemented.

The CoBE is expected to be updated in 2018 to provide better clarity on the interpretation of the CoBE.

The consequences of breaching the CoBE are clearly set out in the CoBE, and subject to the requirements of applicable laws, disciplinary action will be taken against any employee for non-compliance.

The CoBE also emphasises and advances the principles of discipline, **good conduct, professionalism, loyalty, integrity and cohesiveness.**

For the year 2017, a total number of **5,533 employees** have undergone face-to-face training, refresher training and onboarding training on the CoBE.

BUSINESS ETHICS AND COMPLIANCE (CONTINUED)

THIRD PARTIES WORKING WITH THE COMPANY

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

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

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

"ASK THE CoBE"

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

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

ANTI-BRIBERY AND CORRUPTION COMPLIANCE PROGRAMME

PETRONAS adopted a zero tolerance policy against all forms of bribery and corruption, a reflection of our strong commitment to high ethical standards and anti-corruption laws. The CoBE explicitly prohibits the giving and acceptance of bribes by PETRONAS employees, including the giving and receiving of facilitation payments in all its business dealings. This is in line with PETRONAS' core values, business principles and various internal policies, which reflect its focus in making ethics and anti-corruption an integral part of PETRONAS' business operations.

To further demonstrate PETRONAS' strong commitment to matters of integrity, the Executive Leadership Team of PETRONAS had on 13 June 2017 signed the Malaysian Anti-Corruption Commission's (MACC) Corruption-Free Pledge, strengthening PETRONAS' resolve towards becoming a graft-free organisation. The pledge also signifies "Tone at The Top" and further exemplifies "leadership by example" and "Zero Tolerance" towards bribery and corruption.

In supporting the general policy statements in the CoBE, PETRONAS has developed the PETRONAS Integrity Compliance Framework (PICF) to instill and ensure compliance to all elements related to the propagation of integrity and business ethics within the business activities of PETRONAS Group of Companies. In this regard, PETRONAS Integrity Awareness Committee (PIAC) was created to coordinate, monitor and ensure programmes planned under PICF are implemented in an effective, integrated and structured manner. PIAC comprises of members from Group Legal, CIO Office and Group Human Resources.

The Anti-Bribery and Corruption Policy and Guidelines (ABC Manual) was rolled out on 19 September 2013 for Groupwide implementation, starting with PETRONAS Group Companies in Malaysia. It governs matters including engagement with public officials, facilitation payments, engagement with third parties, and gifts, entertainment and corporate hospitality. The ABC Manual is being rolled out in phases to subsidiaries across all international jurisdictions in which the PETRONAS Group operates.

The consequences of breaching the ABC Manual are clearly set out in the CoBE, and subject to the requirements of applicable laws, consequence management will be taken against any employee for non-compliance.

Training sessions are currently being conducted for employees Groupwide to equip them with sufficient knowledge and understanding on how the ABC Manual should be interpreted and applied across the Group. For the year, a total number of 3,515 employees have undergone face-to-face training on the ABC Manual.

In 2017, 15 training sessions on the ABC Manual and compliance were conducted for higher and middle management of PETRONAS companies in Malaysia and other international operations. The programme, entitled Corporate Integrity Advocacy Programme (CIAP) was conducted with the primary aim of educating the managers in PETRONAS on the important role they play in building a culture of compliance and integrity as they will be largely responsible in setting the standards for ethical behavior and business conduct for the entire organisation. As such, it is pertinent for the management to set the right tone as this will be cascaded down and emulated by the employees across the Group.

The ABC Manual is available on PETRONAS' corporate website at http://www.petronas.com.my/about-us/governance/Documents/PET%20ABC%20Manual.pdf

ANTI-BRIBERY AND CORRUPTION COMPLIANCE PROGRAMME (CONTINUED)

In reaching out to more employees that are located in various locations globally, PETRONAS will continuously improve ABC e-learning platform to effectively manage PETRONAS' Groupwide compliance programme.

It is to be noted that PETRONAS' efforts and commitment in implementing best practices and integrity in its day-to-day operations and business transactions have been continuously recognised by independent international parties. In 2016, PETRONAS was ranked as the most transparent company in the emerging market, under the oil, gas and energy industry category by anti-corruption watchdog Transparency International (TI) in its Transparency in Corporate Reporting (TRAC) Report.

In 2017, PETRONAS was able to successfully obtain the certification for International Organization for Standardization 370001 on Anti-Bribery Management System ("ISO 37001") upon satisfaction of requirements with respect to anti-bribery management system for corporate services, covering the areas of integrity and compliance processes, procurement, registration of suppliers, investment, project management, and corporate hospitality management.

This certification validates PETRONAS' strategy in implementing global best practices to combat bribery and corruption. The certification also evidences PETRONAS commitment on anti-bribery and corruption in a verifiable way and is a testament of PETRONAS' strong commitment towards zero tolerance to bribery and corruption.

THIRD PARTIES WORKING WITH THE COMPANY

PETRONAS' dealings with third parties must be carried out in compliance with all relevant laws and consistent with the values and principles of the CoBE and ABC Manual. As part of this commitment, all forms of bribery and corruption are unacceptable and will not be tolerated. As such, PETRONAS is highly committed in ensuring its contractors, vendors and joint venture partners comply with the standards of behaviour set out in the CoBE and ABC Manual to ensure the highest level of integrity is observed and practiced. To this end, 10 Vendor Integrity Programmes were conducted in 2017 which were attended by 1,382 companies.

PETRONAS also strives to ensure that the values and principles important to us are embedded in all aspects of our procurement and supply chain activities. To achieve this objective, we have enhanced our third party due diligence process to ensure our contractors, vendors and joint venture partners meet our standards of integrity, including an online third party due diligence compliance screening to assess bribery risks when dealing with third parties.

PETRONAS WHISTLEBLOWING POLICY AND PROCEDURES

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

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

The PETRONAS Whistleblowing Committee (Committee) was set up in tandem with the Policy roll out, to deliberate on submissions and decide on the next course of action as well as to monitor progress of the cases. The Committee meets at least once a month and provides updates to the Internal Audit Management Committee. In 2017, the Committee received a total of 52 submissions. Appropriate actions have been taken on reports received via the whistleblowing channels in accordance with the Whistleblowing Procedures adopted by PETRONAS.

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

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

COMPETITION LAW COMPLIANCE PROGRAMME

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

The low-price landscape has also created a new norm for greater collaboration within the oil and gas players for better cost optimisation. Under these circumstances, there is a need to focus on competition compliance relating to cooperation amongst competitors, in order to enjoy maximum efficiency yield from such collaboration, whilst avoiding competition law violations.

Within the CoBE, there are already specific provisions on anti-competitive practices reflecting PETRONAS' commitment to conduct its business activities in adherence with the relevant competition law legislations. To supplement the general provisions in the CoBE, PETRONAS rolled out the PETRONAS Competition Law Guidelines (the Guidelines) in 2012 to cultivate better awareness and foster an effective competition law compliance culture within the Group. The aim of the Guidelines is to ensure our employees have a practical understanding of competition law through the Guideline's user-friendly "Dos and Don'ts" and FAQs.

At the same time, the availability of in-house competition law advisors and provides an avenue for PETRONAS' businesses to learn and seek advice with regards to complex competition law matters.

Pursuant to the PETRONAS Competition Law Guidelines (the Competition Guidelines), and in order to cultivate better awareness and foster an effective competition law compliance culture within the Group, PETRONAS employees also received continuous trainings on competition law compliance, either online or in-person, depending on the needs of the business or function.

The Guidelines, have been printed into booklets for distribution to all employees and is also available on PETRONAS' corporate website at http://www.petronas.com.my/about-us/governance/Documents/Competition%20Law%20Guidelines_R12.pdf

HUMAN RIGHTS COMPLIANCE

PETRONAS upholds its Human Right Commitment through respect of internationally-recognised human rights in areas of its operations, and complying with its Code of Conduct and Business Ethics, and to all relevant legal requirements. Fundamentally, the Commitment ensures PETRONAS effectively and efficiently undertakes its business obligations in delivering energy responsibly, whilst being mindful of its stakeholders' varying expectations. The obligations focus on, namely, provision of policy and guidelines, due diligence and access to remedy in the following four areas - labour and working conditions for contractors, responsible security, supply chain performance and community wellbeing.

In 2017, PETRONAS formalised and strengthened human rights practices among its external service providers. This encompassed establishment of the PETRONAS Contractors Code of Conduct on Human Rights (CoCHR), and its inclusion into the General Terms and Conditions of procurement contracts. The CoCHR drives and integrates compliance across the value chain to PETRONAS' human rights requirements stipulated on the management of health, safety, security and environment. Contractors submitting registrations using the Supplier Self Service portal are thus required to adhere by the CoCHR requirements, applicable to the procurement of goods and services.

Human Rights stipulations are also incorporated into the PETRONAS Procedures and Guidelines for Upstream Activities (PPGUA). To this end, all Upstream interests in Malaysia shall evaluate human rights associated risks as part of the larger health, safety, security and environment considerations.

Moving forward, PETRONAS is looking into enhancing its existing monitoring and reporting activities on human rights related activities in response to the evolving global trends across the social dimension, aiming for greater transparency in existing disclosure practices.

Detailed insights on PETRONAS' human rights practices are featured in PETRONAS' Sustainability Report 2017, which is accessible at www.petronas.com

PETRONAS RAID PROTOCOL

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

The PETRONAS Raid Protocol has served as a good guidance for PETRONAS employees during investigations and/or raids from the competition and anti-corruption agencies since then. Various lessons and challenges are learnt throughout this period that includes simplification of procedures and processes.

In line with PETRONAS' efforts to ensure that our policy provides relevance and sustainable value to our operations, the PETRONAS Raid Protocol will continuously be reviewed to provide better clarity and incorporating the various lessons learnt.

INTERNATIONAL ECONOMIC SANCTIONS AND EXPORT-CONTROL COMPLIANCE PROGRAMME

Recent trends have showed increasing focus on enforcement efforts among the major sanction regimes, including the US and the EU. As a global integrated oil and gas company, PETRONAS is committed to adhere to the applicable economic sanctions and export control regulations which is consistent with international norms and standards.

Enforcement statistics have also shown a shift of enforcement focus actions from large banks to corporations, including those in the energy sector. With these developments, compliance to sanctions is crucial in view of PETRONAS global outreach.

The PETRONAS Economic Sanctions and Export Control Policy & Guidelines, (Policy & Guidelines), approved by the PETRONAS Board on 25 February 2016, continue to serve as a guide for PETRONAS businesses wherever it operate around the globe.

As PETRONAS ventures into new markets, compliance efforts in respect of economic sanctions and export control will remain pertinent and relevant.

PERSONAL DATA PROTECTION COMPLIANCE

In light of the changes to the regulatory landscapes in relation to personal data protection laws internationally, for example, the extra-territorial effect of the recently introduced EU General Data Protection Regulation, PETRONAS is continuously reviewing PETRONAS' policies and procedures in the management of personal data.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

As part of institutionalising good corporate governance culture as propagated by Malaysian Code of Corporate Governance (MCCG), PETRONAS Board (the Board) is pleased to provide the following statement which outlines the nature and scope of risk management and internal control of Petroliam Nasional Berhad and its subsidiaries (the PETRONAS Group) during the year under review. PETRONAS Statement of Corporate Governance can be referred to, in pages 99 to 111 of this annual report.

BOARD'S ACCOUNTABILITY

The Board is responsible to oversee and ensure a sound system of risk management and internal controls for the PETRONAS Group. An effective risk management framework helps the PETRONAS Group to achieve its optimal performance and profitability targets by incorporating risk information for better decision-making, whilst sound internal controls enable appropriate response to manage identified risks, thus facilitating effective and efficient operations, safeguard shareholders' investment and the PETRONAS Group's assets.

The Board is also cognisant that its role in providing risk oversight sets the tone and culture towards embedding risk management practices across the PETRONAS Group.

The PETRONAS Board Charter includes risk management and internal control oversight as one of the main functions of the Board, in line with the requirements under the Companies Act, 2016.

The Board risk oversight is supported by the following committees:

Board Governance and Risk Committee (BGRC)

The BGRC was established in 2010 to assist the Board in providing, amongst others, direction, guidance and oversight on risk management matters. The BGRC reviews risk policies, strategies, principal risks, risk practices and oversees the adequacy of the risk management system to effectively monitor and manage risks in the PETRONAS Group.

Board Audit Committee (BAC)

The BAC assists the Board in fulfilling its responsibilities relating to internal controls and financial reporting by performing oversight functions on behalf of the Board to ensure good governance practices and proper conduct whilst safeguarding the PETRONAS Group's assets.

RISK MANAGEMENT

Risk Management is an integral part of the PETRONAS Group's activities. Ongoing improvement to strengthen the monitoring of principal risks remains a key focus of the Board towards building a successful and sustainable business. Risks across the PETRONAS Group are being managed on an integrated basis and their evaluations are incorporated into the decision-making process.

Dedicated risk management functions also exist within the PETRONAS Group, particularly for listed subsidiaries, to assess and evaluate the risk management processes for reporting to their respective Management and Board.

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

Risk management and internal control implementation Groupwide are supported by the following committees:

Executive Leadership Team (ELT)

The ELT is established to assist the President and Group CEO in the management of the Company and is responsible for providing a holistic approach to all business development strategy, high impact and high value investments including mergers and acquisitions. The ELT reviews key risk management matters to provide guidance and direction prior to BGRC and Board reporting.

Risk Management Committee (RMC)

The RMC is formed to serve as a platform to assist the ELT, the BGRC and the Board in identifying principal risks and reviewing governing documents at Group level as well as to provide assurance on risk management practices across the PETRONAS Group to protect and safeguard PETRONAS' interest. The RMC also promotes sound risk management practices through the sharing of information, best practices and lessons learnt to enhance the risk culture across the PETRONAS Group.

The PETRONAS Group's system of risk management and internal control seeks to manage and control risks appropriately. The system provides reasonable and not absolute assurance against material misstatement or loss or the occurrence of unforeseeable circumstances.

Risk Policy

PETRONAS Risk Policy (refer Chart 1) stipulates the general principles and guidelines for actions which influence decisions. It gives clear communication of management's expectations in relation to risk management practices throughout the PETRONAS Group.

The objective to achieve PETRONAS Risk Policy is complemented by the PETRONAS Resiliency Model that provides an integrated and holistic view of the overall strategy to manage the PETRONAS Group's risks, focusing on three areas of business resilience, namely Enterprise Risk Management (ERM), Crisis Management (CM) and Business Continuity Management (BCM). These are supported by risk frameworks and relevant guidelines to govern, guide and institutionalise risk management practices across the PETRONAS Group. The status of risk management practices are monitored and reported quarterly to RMC.

PETRONAS RISK POLICY

PETRONAS shall adopt and implement risk management best practices by identifying, assessing, treating and monitoring risks as well as effectively responding to crises.

In the event of prolonged disruption, business continuity practices shall be adopted to restore and ensure continuity of PETRONAS' key business activities.

ENTERPRISE RISK MANAGEMENT

Structured and holistic approach to identify, assess, treat and monitor risks. The aim is to **REDUCE** the likelihood and impact of identified risks to enhance the organisation's ability to achieve its strategic objectives.

CRISIS MANAGEMENT

Comprehensive set of process that aims to prepare the organisation to **RESPOND** and manage crises in the risk areas to protect people, environment, assets and reputation.

BUSINESS CONTINUITY MANAGEMENT

Holistic management process that aims to build the capability of an organisation to **RECOVER** and continue delivery of products or services at acceptable predefined levels following a prolonged disruptive incident.

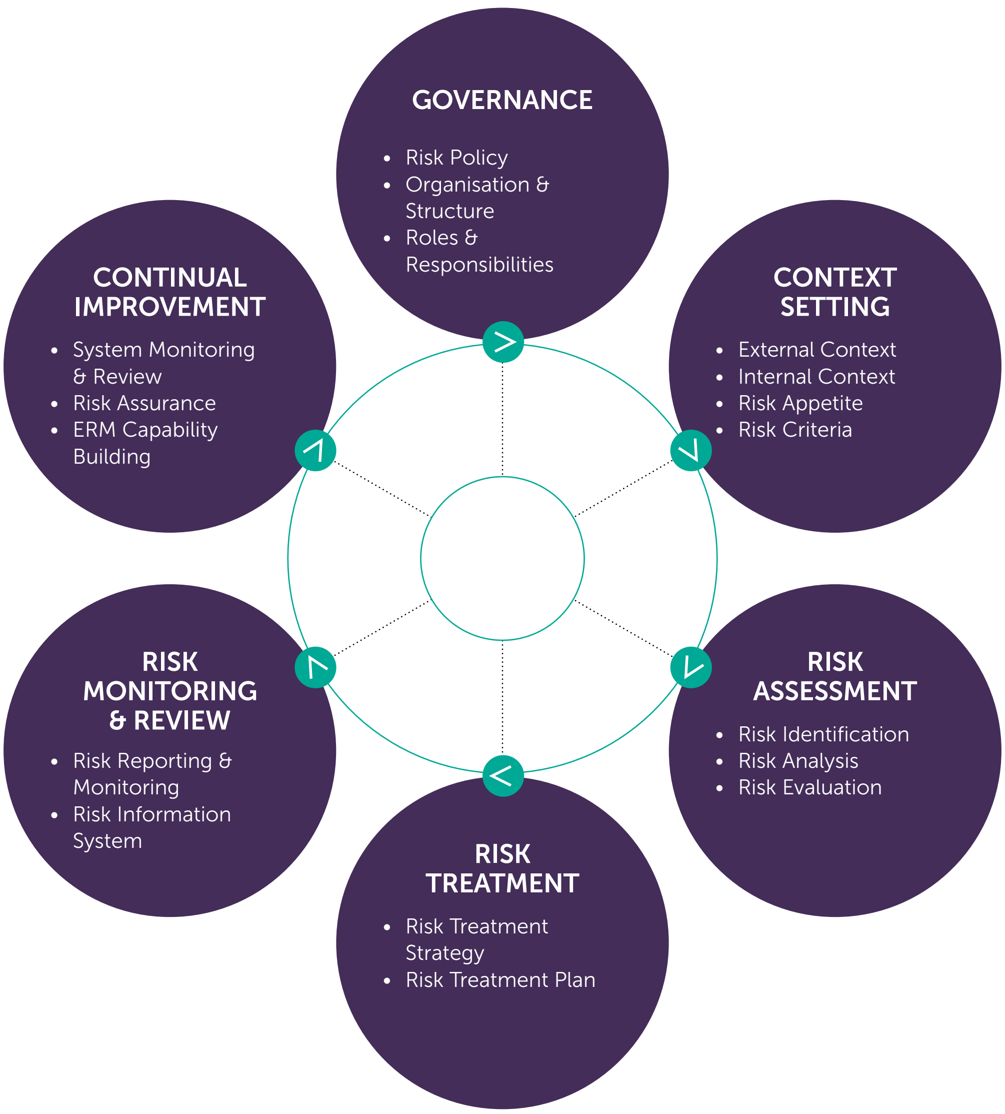
Chart 1: PETRONAS Risk Policy and PETRONAS Resiliency Model

Enterprise Risk Management
(refer Chart 2)

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

Risk profiles established through the ERM process are monitored at corporate level and across the PETRONAS Group, which consist of identified principal risks with corresponding risk mitigations and key risk indicators. It allows actions to be taken to ensure that risks are being effectively managed by respective units, endorsed by the Head of Department of respective Holding Company Units (HCU), Business Units (BU) or Operating Units (OPU), and reported to their Management and Board on quarterly basis.

Chart 2: ERM Framework

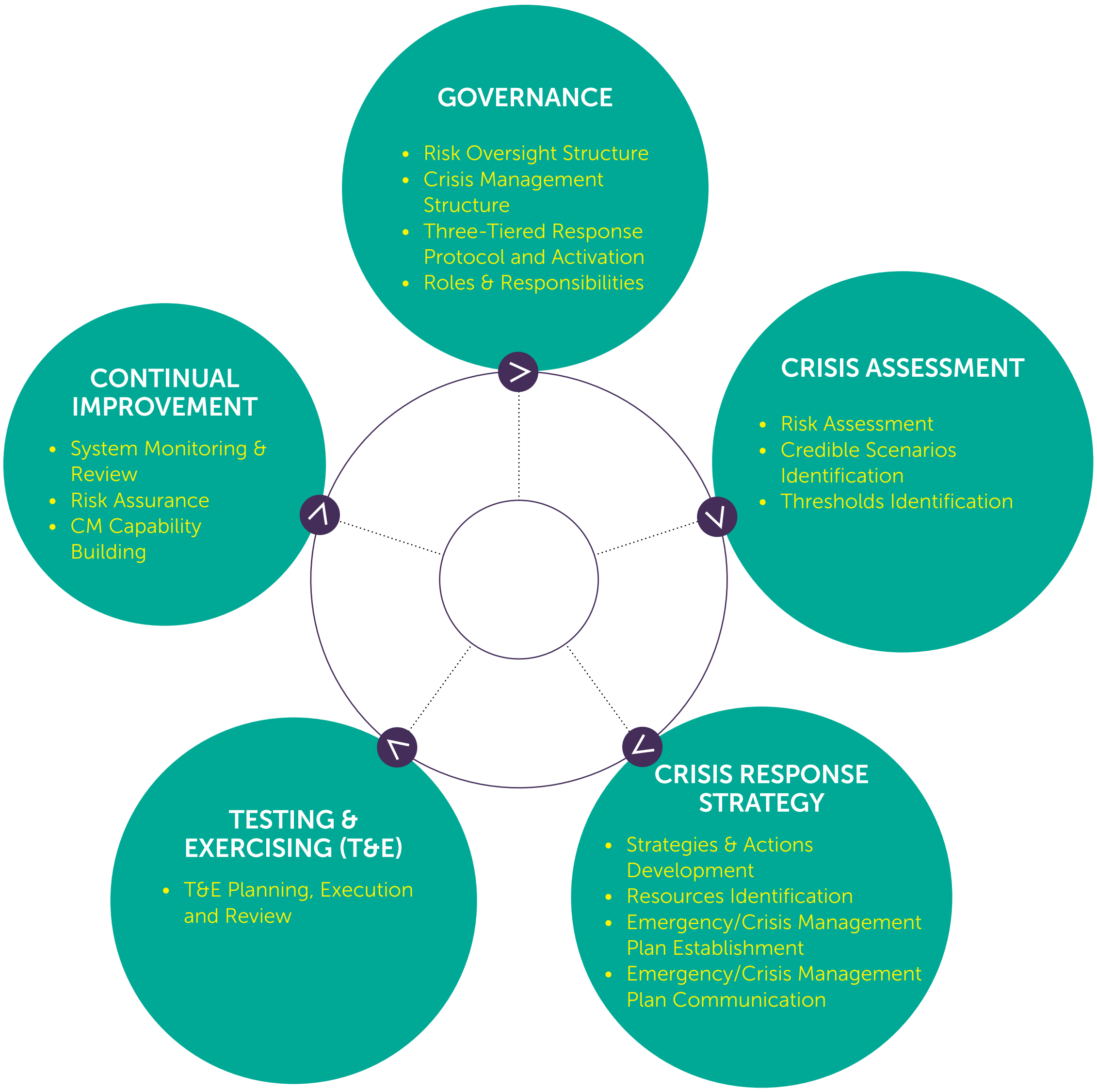


Crisis Management
(refer Chart 3)

Crisis Management (CM) is an integrated process that aims to prepare an organisation at both domestic and international operations to respond and manage crises in the risk areas to protect People, Environment, Asset and Reputation (PEAR).

There is a three-tiered response system which provides demarcation of roles and responsibilities between emergency site management, operating unit management, corporate and internal/external response agencies and/or authorities. Testing and Exercising (T&E) via simulation of test scenarios validates the effectiveness of response strategies as well as promoting continual improvement identified in the Crisis Management Plan (CMP). T&E were carried out at respective Holding Company Units (HCU), Business Units (BU) or Operating Units (OPU).

Chart 3: CM Framework



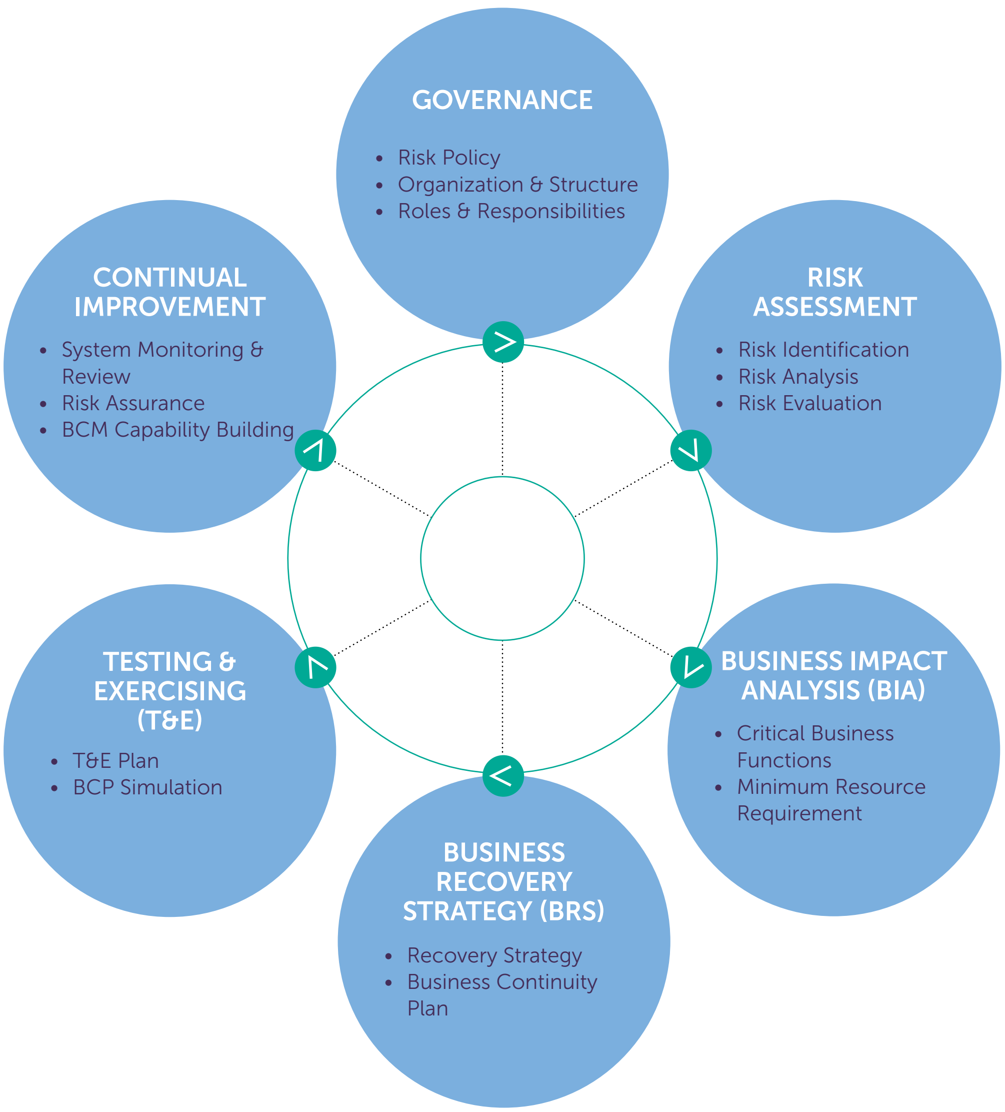
Business Continuity Management
(refer Chart 4)

Business Continuity Management (BCM) is a management process that aims to build the capability of the PETRONAS Group to recover and continue the delivery of products or services at acceptable predefined levels following any prolonged disruption.

Business Continuity Plans (BCP) were established through the BCM process to enhance the PETRONAS Group's preparedness to recover and restore businesses' critical functions within a reasonable period of time towards sustaining the PETRONAS Group's activities and minimising disruptions to stakeholders. Testing and Exercising (T&E) via simulation of test scenarios validates the effectiveness of recovery strategies as well as maintaining high level of competence and readiness identified in the BCP. T&E were carried out at respective Holding Company Units (HCU), Business Units (BU) or Operating Units (OPU).

v

Chart 4: BCM Framework



KEY INTERNAL CONTROL

As part of PETRONAS Resiliency Model, internal controls are developed to facilitate standardisation of processes and practices across the PETRONAS Group for focus risk areas such as Financial, Health, Safety, Security and Environment (HSSE), Plant and Facilities, Project, Procurement, Information and Communication Technology (ICT), Reputation, Human Capital and Country.

FINANCIAL

Limits of Authority
The Limits of Authority (LOA) defines decision-making limits within the PETRONAS Group, providing a balance between effective and quality decision-making and appropriate management control.

All LOA development and revision are independently reviewed by Group Financial Controller, effective November 2017, to ensure adherence and consistency with the PETRONAS Group LOA Framework and General Principles. This review was previously conducted by Corporate Finance.

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

The PETRONAS Group strategic directions were reviewed during the year due to changes in market conditions and significant business risks.

Financial Control Framework
The PETRONAS Group has a Financial Control Framework (FCF) with the principal objective of enhancing the quality of financial reporting through a structured process of ensuring the adequacy and effectiveness of key internal controls operating at various levels within the PETRONAS Group at all times.

The FCF requires among others, documentation of key controls, remediation of control gaps as well as a regular testing of control operating effectiveness. On a semi-annual basis, each key process owner at various management levels is required to complete and submit a letter of assurance which provides confirmation of compliance to key controls for the areas of the business for which they are accountable.

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

The financial risk management practices are implemented across the PETRONAS Group in accordance with the requirements of CFP. This enables visibility on the PETRONAS Group's key financial risk exposures for improved risk management.

In addition, PETRONAS Liquidity Risk Contingency Protocol (LRCP) and PETRONAS Trading Mandate were developed for liquidity risk and trading activities. The objective of the LRCP is to ensure the PETRONAS Group's ability to manage any emerging financial crisis that impact its liquidity position, whilst PETRONAS Trading Mandate ensures alignment of PETRONAS risk appetite with regards to trading activities with OPUs.

HEALTH, SAFETY, SECURITY & ENVIRONMENT

The PETRONAS Group's Health, Safety and Environment (HSE) policy is supported by the HSE Management System (HSEMS) as well as HSE Mandatory Control Framework (MCF) and PETRONAS Security policy is supported by Security Management System (SeMS) with Minimum Mandatory Security Standard (M2S2) to strengthen the HSSE governance within the PETRONAS Group. HSE MCF includes clear requirements on health, operational safety and environment for consistent and effective Groupwide implementation, whilst the M2S2 outlines the minimum security standards required to be implemented by assets to effectively manage security risks.

The PETRONAS HSSE Executive Leadership Team (HSSE ELT) is the highest management committee that steers Groupwide HSSE policies and strategies. HSSE ELT reviewed PETRONAS HSSE performance three times during the year. Additionally, Group HSSE Leadership Team (HSSE LT) is a platform to discuss on effective execution of key strategies and associated issues that impact Groupwide health, safety, security and environment key result areas, risk management and internal controls, and provide guidance on the way forward.

HSE and Security Risk Assessments were carried out to identify potential hazard/threat, analyse the adequacy of current HSE and Security measures, propose mitigation, gap closure activities and counter measures. HSE Tier 3 Assurance is an independent assessment that was carried out by Group HSE to provide assurance on the effectiveness of HSE controls and the summary of assurance findings and corrective action plans were presented half-yearly to PETRONAS BAC while BUs and OPUs carried out HSE Assurances to assess compliance to regulatory requirements and HSE procedures at their respective BU and OPU. The findings of HSE and Security Risk Assessments and HSE Assurances were presented to HCU/BU/OPU management committees to provide them with clear view of their respective HSE and Security risks.

In addition, PETRONAS Human Right Commitment guides the PETRONAS Group's activities to be aligned with internationally recognised human rights requirements in areas of operations and in accordance to the relevant legal requirements.

KEY INTERNAL CONTROL (CONTINUED)

PLANT AND FACILITIES

The operations of plant and facilities are governed by documents namely Plant and Facilities Risk Management (PFRM) Guideline, Integrated Plant Operations Capability System (iPOCS), respective Downstream and Upstream Business Excellence Management System (OEMS) and PETRONAS Technical Standards (PTS).

PFRM prescribes principles and structured processes in managing operational risks in accordance with PETRONAS Resiliency Model. It guides plants and facilities to systematically identify, assess, control, monitor and review operational risks to improve the ability to reduce the likelihood and/or impact of identified risks. The remaining governing documents prescribe the specific system and work processes required by the PETRONAS Group's plants and facilities as part of the internal controls to manage their plants and facilities over the entire life cycle in order to operate the plants and facilities safely and achieve the targeted availability, reliability, integrity and maintainability.

The risk profiles of respective plant and facilities have been developed through the PFRM process where risks are rated based on its probability and impact to the operations. These will determine appropriate mitigations for every principal risk for actions to be taken to ensure that operational risks are being managed. In addition, plant and facility self-assessment was conducted where all plants and facilities' Heads declared and attested that their controls are in place and in compliance with iPOCS and OEMS.

PROJECT

Project Risk Management is implemented in accordance with PETRONAS Project Management System (PPMS). PPMS Phase Gated Process is designed to retain and maximise project value across a project's life cycle which includes decision-making process in directing and controlling investment of capital projects leading to project sanction.

The purpose of PPMS Phase Gated Process is to bring a measure of rational processes to the decision-making associated with transforming business opportunity into operational assets. PPMS Phase Gated Process consists of structured phases from framing, feasibility study, scope selection, scope definition, execution to operationalisation. Each phase prescribes project management standards to ensure consistency of practices.

Project risks are identified, assessed, mitigated and validated through assurance programmes under the PPMS framework. The processes are meant to reduce the risk of unexpected technical and/or commercial factors significantly affecting project's viability.

PROCUREMENT

Procurement management is implemented based on PETRONAS Tender and Contract Administrative Manual duly established for group-wide adoption and remains as a key function in supporting the Management.

The Group Procurement Leadership Team (GP LT) provides stewardship on the overall strategic direction of Group Procurement Sector. GP LT also reviews the overall performance of the Sector's business proposal, progress on key strategic initiatives and resolve key issues of mutual concern and interest.

Group Procurement (GP) has clearly defined authorisation procedures and authority set for awarding tenders and all procurement transactions covering both capital and revenue expenditure items. Tender committees with cross functional representation have been established to provide the oversight functions on tendering matters prior to approval by the approving authorities as set out in the LOA approved by respective Boards.

In addition, procurement assurance programmes were conducted to assess compliance of the procurement process in regards to comprehensiveness and effectiveness of the procurement management implementation.

INFORMATION & COMMUNICATION TECHNOLOGY

PETRONAS information security is guided by the PETRONAS Information Security Policy and Baselines. The PETRONAS Group's information security processes are accredited with the International Organisation for Standardisation (ISO) 27001:2013 – Information Security Management System Standard.

The PETRONAS Group's ICT governance is led by the Group ICT Council that deliberates and decides on all matters related to strategy, investments, policies, programmes, project prioritisations, information security and performance review of the Group ICT functions.

To ensure proper information security protection and responding to cybersecurity threats, Group ICT has in place adequate ICT security tools and procedures to detect, respond and mitigate the threats.

Operationally, Group ICT continuously monitors cyber threats, escalates and reports any information security breaches to the respective stakeholders. In addition, Group ICT also has in place a Disaster Recovery Plan (DRP) for identified critical business applications. Scheduled drills and exercises are conducted annually to ensure readiness in the event of ICT disaster recovery activation.

KEY INTERNAL CONTROL (CONTINUED)

REPUTATION

The Strategic Communications Management Committee (SCMC) leads and manages an integrated global strategic communications function in ensuring a single strategic direction supporting the business strategy. The committee also ensures consistent and result-based communication approach and delivers operational excellence to safeguard the PETRONAS Group's reputation. SCMC meets every two months.

Reputation risk framework and guideline have been established and implemented to govern and institutionalise reputation risk management across the PETRONAS Group.

Reputation risks and issues impacting the PETRONAS Group were monitored and escalated weekly to the Management. Analysis from these reports became a reference point for the formulation of communication and engagement strategies Groupwide.

HUMAN CAPITAL

The PETRONAS Group Human Resource Management (HRM) operates through a formal organisation structure with delineated lines of authority, responsibility and accountability. Group HRM LOA, guidelines and procedures were established and implemented to all Group Human Resource (HR) to govern and monitor the Human Capital Management that represent the total HRM value chain (i.e. Organisational Development and Design, Workforce Planning, Talent Sourcing, Leadership and Capability Development, Industrial Relations and Employee Relations).

The HRM Management Committee is the main platform that deliberates and decides on matters related to HRM strategies, investments, policies, guidelines, project prioritisation and performance review. Matters related to HRM strategies, policies reviews and enhancements are further deliberated at ELT People Development Committee (PDC). Additionally, the bi-annual HRM Risk Management Committee sitting focuses on deliberation and tracking of risk matters pertaining to the effectiveness and robustness of human capital solutions to address business dynamics and sustaining continuous pipeline of leaders.

There is also the PETRONAS Talent Council at PETRONAS level to further deliberate on risk and issues impacting PETRONAS Corporate Critical Position.

COUNTRY

The Country Risk Management Framework (CRMF) prescribes oversight structure, roles and responsibilities, and assessment tools in ensuring country risk is managed in a systematic and structured manner across the PETRONAS Group.

CRMF describes how Country Risk Management (CRM) oversights and functions shall be organised within the PETRONAS Group and defines clear roles and responsibilities at respective management levels. It also prescribes requirements on pre-entry, in-country and exit management that aims to support decision-making in relation to international investments and managing in-country risk holistically.

Pre-entry assessment, in-country assessment and development of exit strategy for the identified countries were conducted and reported to respective country's Management and Board.

INTERNAL AUDIT

The PETRONAS Board recognises that the internal audit function is an integral component of the governance process. The internal audit processes and activities are guided by Internal Audit Charter approved by the Board Audit Committee (BAC), which is aligned with the standards and principles outlined in the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA). In performing audits, the internal audit functions refer to internal control framework and guidance issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

The PETRONAS Group Internal Audit Division reports directly to PETRONAS BAC. In addition, all public listed subsidiaries within the PETRONAS Group have their own individual BACs. The PETRONAS Group's Internal Audit functions support their respective BACs by providing an independent and objective assurance designed to add value and improve the PETRONAS Group's operations.

The key responsibility of the PETRONAS Group's Internal Audit function is to assist the PETRONAS Group in accomplishing its goals by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes. The Internal Audit functions maintain its impartiality, proficiency and due professional care by having its plans and reports directly under the purview of the respective BACs.

The respective BACs review reports on internal audits performed under its purview, including the agreed corrective actions to be undertaken by respective HCU/BU/OPU as well as the group's quarterly financial results. The internal audit functions monitor the status of the agreed corrective actions through the Quarterly Audit Status Report submitted by respective HCU/BU/OPU which have been assessed and verified by the internal audit. The consolidated status of the audit issues were submitted and presented to the respective BACs for deliberation on quarterly basis.

OTHER MATTERS

The risk management and internal control systems discussed in this statement do not apply to entities where PETRONAS do not have control which includes joint arrangements.

AFFIRMATION BY THE BOARD

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

The Board is of the view that risk management and internal control instituted throughout the Group is sound and provides a reasonable level of confidence but not absolute assurance that the PETRONAS Group is not affected by any event that cannot be reasonably foreseen. In the year under review, the Board is not aware of any significant control failure or weakness that would have resulted in material losses, contingencies or uncertainties requiring separate disclosure in the Annual Report.

REVIEW OF STATEMENT BY EXTERNAL AUDITOR

The external auditors have reviewed this Statement on Risk Management and Internal Control in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information as adopted by the Malaysian Institute of Accountants, and Recommended Practice Guide (RPG) 5 (Revised 2015) Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report for the financial year ended 31 December 2017. The external auditors reported to the Board that nothing has come to their attention that cause them to believe that the Statement on Risk Management and Internal Control has not, been prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or is factually inaccurate.

ISAE 3000 and RPG 5 (Revised 2015) do not require the external auditors to consider whether the Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and Management thereon. The external auditors are also not required to consider whether the processes described to deal with material internal control aspects of significant problems, if any, disclosed in the Annual Report of the Company will, in fact, remedy the problems. Similarly, the external auditors are also not required to perform any procedures by way of audit, review or verification of the underlying records or other sources from which the Statement on Risk Management and Internal Control was extracted.

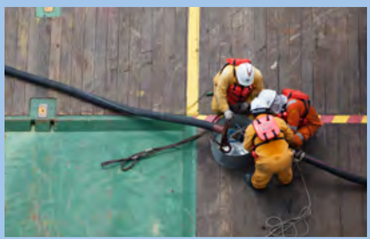
This statement is made in accordance with the resolution of the Board of Directors dated 27 February 2018.

SECTION V

FINANCIAL STATEMENTS

MODELLING THE WAY FOR THE FUTURE

Our stakeholders can read about our financial health for the year under review and our realistic expectations for the year ahead.



DIRECTORS' REPORT
for the year ended 31 December 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Company in the course of the financial year remained unchanged and consist of exploitation of oil and gas, the marketing of petroleum and petroleum products and investment holding. The principal activities of key subsidiaries, associates and joint ventures are stated in note 43, note 44 and note 45 to the financial statements respectively.

The Company is wholly-owned by the Government of Malaysia.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in note 43 to the financial statements.

RESULTS

In RM Mil	Group	Company
Profit for the year	45,518	26,172
Attributable to:		
Shareholders of the Company	37,660	26,172
Non-controlling interests	7,858	-

DIVIDENDS

During the financial year, the amount of dividends paid by the Company were as follows:

(i) a final tax exempt dividend of RM130,000 per ordinary share amounting to RM13 billion declared on 27 February 2017 and paid in instalments between April to September 2017 in respect of the financial year ended 31 December 2016 as reported in the Directors' Report of that year, and

(ii) an interim dividend of RM30,000 per ordinary share amounting to RM3 billion declared on 22 August 2017 and paid in instalments between September to November 2017 in respect of the financial year ended 31 December 2017.

The Directors propose a tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM160,000 per ordinary share amounting to RM16 billion in respect of the financial year ended 31 December 2017 for shareholder's approval at the forthcoming Annual General Meeting.

The financial statements for the current financial year do not reflect this proposed final dividend. Such dividend, if approved by the shareholders will be accounted for in equity as an appropriation of retained profits during the financial year ending 31 December 2018.

DIVIDENDS (CONTINUED)

Subsequent to the end of the current financial year, the Company declared a tax exempt interim dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM30,000 per ordinary share amounting to RM3 billion in respect of the financial year ending 31 December 2018. The dividend will be paid and accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2018.

RESERVES AND PROVISIONS

There were no material movements to and from reserves and provisions during the year other than as disclosed in the financial statements.

DIRECTORS

Directors who served during the financial year until the date of this report are:

Tan Sri Mohd Sidek bin Hassan (Chairman)
Tan Sri Wan Zulkiflee bin Wan Ariffin
Datuk Mohd Omar bin Mustapha
Tan Sri Muhammad bin Ibrahim
Dato' Mohamad Idris bin Mansor
Krishnan C K Menon
Tan Sri Amirsham bin Abdul Aziz
Tan Sri Dr. Mohd Irwan Serigar bin Abdullah
Datuk Manharlal Ratilal
Tan Sri Zarinah Sameehah binti Anwar
Dato' Sri Sharifah Sofianny binti Syed Hussain
Dato' Khodijah binti Abdullah (alternate to Tan Sri Dr. Mohd Irwan Serigar bin Abdullah)
Tan Sri Datuk Amar Haji Mohamad Morshidi bin Abdul Ghani
Datuk Pengiran Hassanel bin Pg Mohd Tahir
Tan Sri Dato' Seri Hj Megat Najmuddin bin Datuk Seri Dr. Hj Megat Khas (retired on 25 April 2017)

The information of Directors of subsidiaries is available at the Company's registered office and the said information is deemed incorporated herein by such reference and made a part hereof.

DIRECTORS' INTERESTS

The Directors in office at the end of the year who have interests in the shares of the Company's related corporations other than wholly-owned subsidiaries (including the interests of the spouses and/or children of the Directors who themselves are not directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

Name	Number of ordinary shares in PETRONAS Gas Berhad			
	Balance at 1.1.2017	Bought	Sold	Balance at 31.12.2017
Tan Sri Amirsham bin Abdul Aziz:				
- others	2,000	-	-	2,000

Name	Number of ordinary shares in PETRONAS Dagangan Berhad			
	Balance at 1.1.2017	Bought	Sold	Balance at 31.12.2017
Tan Sri Amirsham bin Abdul Aziz:				
- others	2,000	-	-	2,000

DIRECTORS' INTERESTS (CONTINUED)

Name	Balance at 1.1.2017	Bought	Sold	Balance at 31.12.2017
	Number of ordinary shares in PETRONAS Chemicals Group Berhad			
Tan Sri Wan Zulkiflee bin Wan Ariffin	20,000	-	-	20,000
Datuk Mohd Omar bin Mustapha	10,000	-	-	10,000
Tan Sri Muhammad bin Ibrahim	20,000	-	-	20,000
Krishnan C K Menon	20,000	-	-	20,000
Datuk Manharlal Ratilal	20,000	-	-	20,000

Name	Balance at 1.1.2017	Bought	Sold	Balance at 31.12.2017
	Number of ordinary shares in MISC Berhad			
Tan Sri Amirsham bin Abdul Aziz:				
- own	11,600	-	-	11,600
- others	4,000	-	-	4,000

Name	Balance at 1.1.2017	Bought	Sold	Balance at 31.12.2017
	Number of ordinary shares in Malaysia Marine and Heavy Engineering Holdings Berhad			
Tan Sri Wan Zulkiflee bin Wan Ariffin	10,000	-	-	10,000
Tan Sri Amirsham bin Abdul Aziz:				
- own	6,000	-	-	6,000
- others	6,000	-	-	6,000

Name	Balance at 1.1.2017	Bought	Sold	Balance at 31.12.2017
	Number of ordinary shares in KLCC Property Holdings Berhad			
Datuk Manharlal Ratilal	5,000	-	-	5,000

None of the other Directors holding office at 31 December 2017 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements), by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

ISSUE OF SHARES

There were no changes in the issued and paid up capital of the Company during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

INDEMNITY AND INSURANCE COSTS

During the financial year, PETRONAS and its subsidiaries (hereinafter referred to as "PETRONAS Group"), including the Company, maintained a Directors' and Officers' Liability Insurance in accordance with Section 289 of the Companies Act, 2016. The total insured limit for the Directors and Officers Liability Insurance effected for the Directors and Officers of PETRONAS Group is RM300 million per occurrence and in the aggregate. The insurance premium for the Company is RM112,047.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts, and

(ii) any current assets which were unlikely to be realised, in the ordinary course of business, their values as shown in the accounting records of the Group and of the Company, had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or

(ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

(iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

(ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2017 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

AUDITORS

The auditors, KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in note 27 to the financial statements.

Signed on behalf of the Board of Directors
in accordance with a resolution of the Directors:

Tan Sri Mohd Sidek bin Hassan
Chairman

Tan Sri Wan Zulkiflee bin Wan Ariffin
Director

Kuala Lumpur,
Date: 27 February 2018

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 129 to 246, are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31 December 2017 and of their financial performance and cash flows for the financial year then ended on that date.

Signed on behalf of the Board of Directors
in accordance with a resolution of the Directors:

Tan Sri Mohd Sidek bin Hassan
Chairman

Tan Sri Wan Zulkiflee bin Wan Ariffin
Director

Kuala Lumpur,
Date: 27 February 2018

STATUTORY DECLARATION

I, **Datuk Manharlal Ratilal**, the Director primarily responsible for the financial management of **PETROLIAM NASIONAL BERHAD**, do solemnly and sincerely declare that the financial statements set out on pages 129 to 246 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed
Datuk Manharlal Ratilal at **Kuala Lumpur**
in **Wilayah Persekutuan** on 27 February 2018.

BEFORE ME:

PESURUHJAYA SUMPAH
No. W 530
TAN SEOK KETT
MALAYSIA

Lot 333, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

In RM Mil	Note	2017	2016 Restated
ASSETS			
Property, plant and equipment	3	**327,458**	333,977
Investment properties	4	**10,187**	10,356
Land held for development	5	**3,018**	3,113
Prepaid lease payments	6	**1,253**	1,061
Investments in associates	8	**6,857**	6,617
Investments in joint ventures	9	**6,235**	7,413
Intangible assets	10	**22,079**	25,552
Long term receivables	11	**13,993**	13,418
Fund and other investments	12	**544**	786
Deferred tax assets	14	**9,710**	9,917
TOTAL NON-CURRENT ASSETS		**401,334**	412,210
Trade and other inventories	15	**15,379**	13,919
Trade and other receivables	16	**44,035**	45,990
Assets classified as held for sale	17	**3,139**	359
Fund and other investments	12	**7,754**	9,477
Cash and cash equivalents	18	**128,209**	121,492
TOTAL CURRENT ASSETS		**198,516**	191,237
TOTAL ASSETS		**599,850**	603,447
EQUITY			
Share capital	19	**100**	100
Reserves	20	**389,694**	380,341
Total equity attributable to shareholders of the Company		**389,794**	380,441
Non-controlling interests	21	**43,041**	43,262
TOTAL EQUITY		**432,835**	423,703
LIABILITIES			
Borrowings	22	**53,751**	57,659
Deferred tax liabilities	14	**8,177**	9,635
Other long term liabilities and provisions	24	**37,385**	37,918
TOTAL NON-CURRENT LIABILITIES		**99,313**	105,212
Trade and other payables	25	**53,291**	62,445
Borrowings	22	**10,398**	9,954
Taxation		**4,013**	2,133
TOTAL CURRENT LIABILITIES		**67,702**	74,532
TOTAL LIABILITIES		**167,015**	179,744
TOTAL EQUITY AND LIABILITIES		**599,850**	603,447

The notes set out on pages 142 to 246 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017

In RM Mil	Note	2017	2016 Restated
Revenue		**223,622**	195,061
Cost of revenue		**(140,194)**	(137,097)
Gross profit	26	**83,428**	57,964
Selling and distribution expenses		**(6,277)**	(5,633)
Administration expenses		**(10,823)**	(9,979)
Net impairment write-back/(losses)		**557**	(10,164)
Other expenses		**(5,350)**	(3,913)
Other income		**6,706**	8,064
Operating profit	27	**68,241**	36,339
Financing costs		**(3,694)**	(3,294)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures		**105**	865
Profit before taxation		**64,652**	33,910
Tax expense	28	**(19,134)**	(10,148)
Profit for the year		**45,518**	23,762
Other comprehensive (expenses)/income			
Items that may be reclassified subsequently to profit or loss			
Net movements from exchange differences		**(14,143)**	3,213
Available-for-sale financial assets:			
- Changes in fair value		**(1,285)**	2,128
- Transfer to profit or loss		**(232)**	(34)
Others		**346**	(29)
Total other comprehensive (expenses)/income for the year		**(15,314)**	5,278
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**30,204**	29,040
Profit attributable to:			
Shareholders of the Company		**37,660**	17,204
Non-controlling interests		**7,858**	6,558
PROFIT FOR THE YEAR		**45,518**	23,762
Total comprehensive income attributable to:			
Shareholders of the Company		**24,579**	21,359
Non-controlling interests		**5,625**	7,681
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**30,204**	29,040

The notes set out on pages 142 to 246 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

		Attributable to shareholders of the Company			
		Non-distributable			
In RM Mil	**Note**	**Share Capital**	**Capital Reserves**	**Foreign Currency Translation Reserve**	**Available-for-sale Reserve**
Balance at 1 January 2016					
- As previously reported		100	13,904	41,293	695
- Effect of change in accounting policies	46	-	-	-	-
At 1 January 2016, restated		100	13,904	41,293	695
Net movements from exchange differences		-	-	2,105	-
Available-for-sale financial assets:					
- Changes in fair value		-	-	-	2,131
- Transfer to profit or loss		-	-	-	(34)
Other comprehensive (expenses)/ income		-	(47)	-	-
Total other comprehensive (expenses)/ income for the year		-	(47)	2,105	2,097
Profit for the year		-	-	-	-
Total comprehensive (expenses)/ income for the year		-	(47)	2,105	2,097
Additional issuance of shares to non-controlling interests		-	-	-	-
Changes in ownership interest in subsidiaries		-	-	(166)	-
Redemption of redeemable preference shares in a subsidiary		-	132	-	-
Dividends	29	-	-	-	-
Total transactions with shareholders		-	132	(166)	-
Balance at 31 December 2016		100	13,989	43,232	2,792

continue to next page

The notes set out on pages 142 to 246 are an integral part of these financial statements.

		Attributable to shareholders of the Company				
		Distributable				
In RM Mil	Note	General Reserve	Retained Profits	Total	Non-controlling Interests	Total Equity
Balance at 1 January 2016						
- As previously reported		12,000	306,884	374,876	40,776	415,652
- Effect of change in accounting policies	46	-	(99)	(99)	-	(99)
At 1 January 2016, restated		12,000	306,785	374,777	40,776	415,553
Net movements from exchange differences		-	-	2,105	1,108	3,213
Available-for-sale financial assets:						
- Changes in fair value		-	-	2,131	(3)	2,128
- Transfer to profit or loss		-	-	(34)	-	(34)
Other comprehensive (expenses)/ income		-	-	(47)	18	(29)
Total other comprehensive (expenses)/ income for the year		-	-	4,155	1,123	5,278
Profit for the year		-	17,204	17,204	6,558	23,762
Total comprehensive (expenses)/ income for the year		-	17,204	21,359	7,681	29,040
Additional issuance of shares to non-controlling interests		-	-	-	30	30
Changes in ownership interest in subsidiaries		-	471	305	642	947
Redemption of redeemable preference shares in a subsidiary		-	(132)	-	(11)	(11)
Dividends	29	-	(16,000)	(16,000)	(5,856)	(21,856)
Total transactions with shareholders		-	(15,661)	(15,695)	(5,195)	(20,890)
Balance at 31 December 2016		12,000	308,328	380,441	43,262	423,703

continued from previous page

The notes set out on pages 142 to 246 are an integral part of these financial statements.

		Attributable to shareholders of the Company			
		Non-distributable			
In RM Mil	Note	Share Capital	Capital Reserves	Foreign Currency Translation Reserve	Available-for-sale Reserve
Balance at 1 January 2017					
- As previously reported		100	13,989	43,232	2,792
- Effect of change in accounting policies	46	-	-	-	-
At 1 January 2017, restated		100	13,989	43,232	2,792
Net movements from exchange differences		-	-	(11,898)	-
Available-for-sale financial assets:					
- Changes in fair value		-	-	-	(1,285)
- Transfer to profit or loss		-	-	-	(232)
Other comprehensive income		-	334	-	-
Total other comprehensive income/ (expenses) for the year		-	334	(11,898)	(1,517)
Profit for the year		-	-	-	-
Total comprehensive income/ (expenses) for the year		-	334	(11,898)	(1,517)
Additional issuance of shares to non-controlling interests		-	-	-	-
Changes in ownership interest in subsidiaries		-	(13)	(67)	-
Redemption of redeemable preference shares in subsidiaries		-	115	-	-
Dividends	29	-	-	-	-
Total transactions with shareholders		-	102	(67)	-
Balance at 31 December 2017		100	14,425	31,267	1,275

continue to next page

The notes set out on pages 142 to 246 are an integral part of these financial statements.

		Attributable to shareholders of the Company				
		Distributable				
In RM Mil	Note	General Reserve	Retained Profits	Total	Non-controlling Interests	Total Equity
Balance at 1 January 2017						
- As previously reported		12,000	308,173	380,286	43,262	423,548
- Effect of change in accounting policies	46	-	155	155	-	155
At 1 January 2017, restated		12,000	308,328	380,441	43,262	423,703
Net movements from exchange differences		-	-	(11,898)	(2,245)	(14,143)
Available-for-sale financial assets:						
- Changes in fair value		-	-	(1,285)	-	(1,285)
- Transfer to profit or loss		-	-	(232)	-	(232)
Other comprehensive income		-	-	334	12	346
Total other comprehensive income/ (expenses) for the year		-	-	(13,081)	(2,233)	(15,314)
Profit for the year		-	37,660	37,660	7,858	45,518
Total comprehensive income/ (expenses) for the year		-	37,660	24,579	5,625	30,204
Additional issuance of shares to non-controlling interests		-	-	-	56	56
Changes in ownership interest in subsidiaries		-	854	774	868	1,642
Redemption of redeemable preference shares in subsidiaries		-	(115)	-	-	-
Dividends	29	-	(16,000)	(16,000)	(6,770)	(22,770)
Total transactions with shareholders		-	(15,261)	(15,226)	(5,846)	(21,072)
Balance at 31 December 2017		12,000	330,727	389,794	43,041	432,835

continued from previous page

The notes set out on pages 142 to 246 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

In RM Mil	Note	2017	2016 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**64,652**	33,910
Adjustments for:			
Depreciation of property, plant and equipment and investment properties		**27,892**	22,766
Amortisation of intangible assets and prepaid lease payments		**2,633**	2,543
Net impairment (write-back)/loss on property, plant and equipment		**(347)**	8,775
Net impairment loss on intangible assets		**1,745**	2,692
Net impairment/write-off on well costs		**703**	6,129
Net impairment loss on loan and advances to an associate		**88**	79
Net impairment loss on receivables		**295**	1,731
Net impairment write-back on investments in associates and a joint venture		**(601)**	(411)
Net impairment loss/(write-back) on other investments		**8**	(10)
Net inventories written down to net realisable value		**135**	22
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures		**(105)**	(865)
Property, plant and equipment written off		**375**	1,361
Gain on disposal of investments in subsidiaries, associates, joint ventures, other investments and property, plant and equipment		**(850)**	(183)
Loss on disposal of other investments and property, plant and equipment		**33**	945
Bad debts written off		**26**	304
Net gain on derivatives		**(64)**	(874)
Unrealised gain on foreign exchange		**(834)**	(2,487)
Gain on bargain purchase		**-**	(33)
Interest income		**(4,389)**	(4,342)
Interest expense		**3,694**	3,294
Operating profit before changes in working capital		**95,089**	75,346
Change in trade and other receivables		**107**	(1,409)
Change in trade inventories		**(1,460)**	(1,180)
Change in trade and other payables		**(1,342)**	(5,453)
Cash generated from operations		**92,394**	67,304

continue to next page

The notes set out on pages 142 to 246 are an integral part of these financial statements.

In RM Mil	Note	2017	2016 Restated
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Interest income from fund and other investments		**3,095**	3,636
Interest expenses paid		**(2,901)**	(2,505)
Taxation paid		**(16,927)**	(14,592)
Net cash generated from operating activities		**75,661**	53,843
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	30	**(42,563)**	(40,880)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	31	**(19,248)**	(14,390)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**13,850**	(1,427)
(INCREASE)/DECREASE IN DEPOSITS RESTRICTED		**(74)**	12
NET FOREIGN EXCHANGE DIFFERENCES		**(7,003)**	2,185
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**120,791**	120,021
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**127,564**	120,791
CASH AND CASH EQUIVALENTS			
Cash and bank balances and deposits	18	**128,209**	121,492
Bank overdrafts	22	**(21)**	(151)
		128,188	121,341
Less: Deposits restricted	18	**(624)**	(550)
		127,564	120,791

continued from previous page

The notes set out on pages 142 to 246 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

In RM Mil	Note	2017	2016
ASSETS			
Property, plant and equipment	3	**14,180**	12,870
Investments in subsidiaries	7	**136,704**	94,289
Investments in associates	8	**302**	302
Investments in joint ventures	9	**992**	1,332
Long term receivables	11	**117,595**	161,889
Fund and other investments	12	**76**	76
Deferred tax assets	14	**5,678**	6,918
TOTAL NON-CURRENT ASSETS		**275,527**	277,676
Trade and other inventories	15	**281**	138
Trade and other receivables	16	**20,384**	18,135
Fund and other investments	12	**1,380**	4,518
Cash and cash equivalents	18	**65,564**	68,426
TOTAL CURRENT ASSETS		**87,609**	91,217
TOTAL ASSETS		**363,136**	368,893
EQUITY			
Share capital	19	**100**	100
Reserves	20	**288,622**	278,470
TOTAL EQUITY		**288,722**	278,570
LIABILITIES			
Borrowings	22	**38,360**	42,367
Other long term liabilities and provisions	24	**14,029**	16,948
TOTAL NON-CURRENT LIABILITIES		**52,389**	59,315
Trade and other payables	25	**19,894**	30,255
Taxation		**2,131**	753
TOTAL CURRENT LIABILITIES		**22,025**	31,008
TOTAL LIABILITIES		**74,414**	90,323
TOTAL EQUITY AND LIABILITIES		**363,136**	368,893

The notes set out on pages 142 to 246 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017

In RM Mil	Note	2017	2016
Revenue		**98,175**	81,567
Cost of revenue		**(57,103)**	(51,313)
Gross profit	26	**41,072**	30,254
Selling and distribution expenses		**(490)**	(480)
Administration expenses		**(4,508)**	(5,065)
Other expenses		**(9,208)**	(79)
Other income		**10,851**	12,479
Operating profit	27	**37,717**	37,109
Financing costs		**(2,606)**	(2,428)
Profit before taxation		**35,111**	34,681
Tax expense	28	**(8,939)**	(4,491)
Profit for the year		**26,172**	30,190
Other comprehensive expenses			
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets:			
- Changes in fair value		**2**	(3)
- Transfer to profit or loss upon disposal		**(22)**	(3)
Total other comprehensive expenses for the year		**(20)**	(6)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**26,152**	30,184

The notes set out on pages 142 to 246 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

		Non-distributable		Distributable		
In RM Mil	Note	Share Capital	Available-for-sale Reserve	General Reserve	Retained Profits	Total Equity
Balance at 1 January 2016		100	36	12,000	252,250	264,386
Available-for-sale financial assets:						
- Changes in fair value		-	(3)	-	-	(3)
- Transfer to profit or loss upon disposal		-	(3)	-	-	(3)
Total other comprehensive expenses for the year		-	(6)	-	-	(6)
Profit for the year		-	-	-	30,190	30,190
Total comprehensive (expenses)/ income for the year		-	(6)	-	30,190	30,184
Dividends representing transaction with shareholders of the Company	29	-	-	-	(16,000)	(16,000)
Balance at 31 December 2016		100	30	12,000	266,440	278,570
Balance at 1 January 2017		**100**	**30**	**12,000**	**266,440**	**278,570**
Available-for-sale financial assets:						
- Changes in fair value		**-**	**2**	**-**	**-**	**2**
- Transfer to profit or loss upon disposal		**-**	**(22)**	**-**	**-**	**(22)**
Total other comprehensive expenses for the year		**-**	**(20)**	**-**	**-**	**(20)**
Profit for the year		**-**	**-**	**-**	**26,172**	**26,172**
Total comprehensive (expenses)/ income for the year		**-**	**(20)**	**-**	**26,172**	**26,152**
Dividends representing transaction with shareholders of the Company	29	**-**	**-**	**-**	**(16,000)**	**(16,000)**
Balance at 31 December 2017		**100**	**10**	**12,000**	**276,612**	**288,722**

The notes set out on pages 142 to 246 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

In RM Mil	Note	2017	2016 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**35,111**	34,681
Adjustments for:			
Depreciation of property, plant and equipment		**1,456**	940
Loss on derivative valuation		**231**	-
Impairment loss on trade and others receivable		**198**	99
Net impairment (write-back)/loss on property, plant and equipment		**(1,789)**	2,100
Impairment write-back on amount due from subsidiaries		**-**	(102)
Net impairment write-back on investment in subsidiaries		**-**	(294)
Interest income		**(6,934)**	(8,593)
Interest expenses		**2,606**	2,428
Gain on partial disposal of subsidiaries, other investments and property, plant and equipment		**(932)**	(572)
Decommissioning/dismantlement, removal or restoration income		**(3,656)**	(807)
Contribution to abandonment cess fund		**(13,352)**	-
Loss on disposal of a subsidiary		**-**	22
Net foreign exchange		**8,957**	(3,892)
Dividend income		**(16,377)**	(14,346)
Operating profit before changes in working capital		**5,519**	11,664
Change in trade and other receivables		**(6,054)**	(2,951)
Change in trade inventories		**(142)**	77
Change in trade and other payables		**5,179**	1,940
Cash generated from operations		**4,502**	10,730

continue to next page

The notes set out on pages 142 to 246 are an integral part of these financial statements.

In RM Mil	Note	2017	2016 Restated
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Interest income received		**7,873**	6,825
Interest expenses paid		**(1,417)**	(1,424)
Taxation paid		**(6,656)**	(4,981)
Net cash generated from operating activities		**4,302**	11,150
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash generated from investing activities	30	**11,102**	4,702
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	31	**(16,000)**	(16,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(596)**	(148)
NET FOREIGN EXCHANGE DIFFERENCES		**(2,266)**	814
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**68,426**	67,760
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**65,564**	68,426
CASH AND CASH EQUIVALENTS			
Cash and bank balances and deposits	18	**65,564**	68,426

continued from previous page

The notes set out on pages 142 to 246 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
- 31 December 2017

1. BASIS OF PREPARATION

1.1 Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the Companies Act, 2016 in Malaysia.

At the beginning of the current financial year, the Group and the Company had adopted amendments to MFRS and IC Interpretation (collectively referred to as "pronouncements") that have been issued by the Malaysian Accounting Standards Board ("MASB") as described fully in note 42.

MASB has also issued new and revised pronouncements which are not yet effective for the Group and the Company and therefore, have not been adopted for in these financial statements. These pronouncements including their impact on the financial statements in the period of initial application are set out in note 42. New and revised pronouncements that are not relevant to the operations of the Group and of the Company are also set out in note 42.

The financial statements were approved and authorised for issue by the Board of Directors on 27 February 2018.

1.2 Basis of measurement

The financial statements of the Group and of the Company have been prepared on historical cost basis except that, as disclosed in the accounting policies below, certain items are measured at fair value.

1.3 Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group and the Company's financial statements are presented in Ringgit Malaysia, which is the Company's functional currency.

1.4 Use of estimates and judgments

The preparation of financial statements in conformity with MFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

i. Note 3 : Property, Plant and Equipment;
ii. Note 10 : Intangible Assets;
iii. Note 14 : Deferred Tax;
iv. Note 24 : Other Long Term Liabilities and Provisions; and
v. Note 40 : Financial Instruments.

1. BASIS OF PREPARATION (CONTINUED)

1.5 Change in accounting policies and estimates in the financial year

During the financial year, the Group has changed its accounting policies with respect to revenue reporting and inventory valuation for gas trading activities. Where forward and future sale and purchase contracts for gas have been determined to be for trading purposes, the associated sales and purchases are reported net within sales. Consequently, the associated inventories are stated at fair value less costs to sell and any changes in fair value are recognised in the profit or loss. The changes will provide more relevant information about the effects of transactions to the Group's financial position and financial performance.

The change in accounting policies have been made retrospectively and in accordance with MFRS 108 *Accounting Policies, Changes in Estimates and Errors* and the impact on comparative information are disclosed in note 46. The changes above did not have a significant impact on the Group's profit or loss and net assets of the previous years.

During the financial year, the Group and the Company revised its estimate of its oil and gas reserves base for the purposes of amortisation computation from proved and probable equity reserves to proved entitlement reserves as a more appropriate reflection of the future benefits expected to be derived by the Group from the utilisation of the oil and gas properties. The revision was accounted for prospectively as a change in accounting estimates in accordance with MFRS 108 *Accounting Policies, Changes in Estimates and Errors* as disclosed in note 3.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Group entities, unless otherwise stated.

2.1 Basis of consolidation

Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commences until the date that control ceases.

All inter-company transactions are eliminated on consolidation and revenue and profits relate to external transactions only. Unrealised losses resulting from inter-company transactions are also eliminated unless cost cannot be recovered.

Business combinations

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. Business combinations are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate of the fair value of the consideration transferred and the amount of any non-controlling interests in the acquiree. Non-controlling interests are stated either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

When a business combination is achieved in stages, the Group remeasures its previously held non-controlling equity interest in the acquiree at fair value at the acquisition date, with any resulting gain or loss recognised in the profit or loss. Increase in the Group's ownership interest in an existing subsidiary is accounted for as equity transactions with differences between the fair value of consideration paid and the Group's proportionate share of net assets acquired, recognised directly in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

Business combinations (continued)

The Group measures goodwill as the excess of the cost of an acquisition and the fair value of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Goodwill arising from business combinations prior to 1 October 2009 is stated at the previous carrying amount less subsequent impairments, pursuant to the adoption of MFRS framework by the Group in the financial year ended 31 December 2012.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented, or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any resulting gain or loss is recognised directly in equity.

Non-controlling interests

Non-controlling interests at the end of the reporting period, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and total comprehensive income for the year between the non-controlling interests and shareholders of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

Loss of control

Upon loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

2.2 Associates

Associates are entities in which the Group has significant influence including representation on the Board of Directors, but not control or joint control, over the financial and operating policies of the investee company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Associates (continued)

Associates are accounted for in the consolidated financial statements using the equity method. The consolidated financial statements include the Group's share of post-acquisition profits or losses and other comprehensive income of the equity-accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

The Group's share of post-acquisition reserves and retained profits less losses is added to the carrying value of the investment in the consolidated statement of financial position. These amounts are taken from the latest audited financial statements or management financial statements of the associates.

When the Group's share of post-acquisition losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with the resulting gain or loss being recognised in profit or loss. Any retained interest in the former associate at the date when significant influence is lost is re-measured at fair value and this amount is regarded as the initial carrying amount of a financial asset.

When the Group's interest in an associate decreases but does not result in loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets and liabilities.

Unrealised profits arising from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses on such transactions are also eliminated partially, unless cost cannot be recovered.

2.3 Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns.

Joint arrangements are classified as either joint operation or joint venture. A joint arrangement is classified as joint operation when the Group or the Company has rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Company account for each of its share of the assets, liabilities and transactions, including its share of those held or incurred jointly with the other investors, in relation to the joint operation. A joint arrangement is classified as joint venture when the Group has rights only to the net assets of the arrangement. The Group accounts for its interest in the joint venture using the equity method as described in note 2.2.

2.4 Property, plant and equipment and depreciation

Freehold land and projects-in-progress are stated at cost less accumulated impairment losses, if any and are not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the assets to working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of material and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Property, plant and equipment and depreciation (continued)

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property at cost.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised with any corresponding gain or loss recognised in the profit or loss accordingly. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

Depreciation for property, plant and equipment other than freehold land, oil and gas properties and projects-in-progress, is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Property, plant and equipment are not depreciated until the assets are ready for their intended use.

Amortisation of producing oil and gas properties is computed based on the unit of production method using total proved reserves for capitalised acquisition costs and total proved developed reserves for capitalised exploration and development costs.

Lease properties are depreciated over the lease term or the estimated useful lives, whichever is shorter. Leasehold land is depreciated over the lease term.

The estimated useful lives of the other property, plant and equipment are as follows:

Buildings	14 - 50 years
Plant and equipment	3 - 67 years
Office equipment, furniture and fittings	5 - 10 years
Computer software and hardware	5 years
Motor vehicles	3 - 5 years
Vessels	20 - 40 years

Estimates in respect of certain items of property, plant and equipment were revised during the year (refer note 3).

The depreciable amount is determined after deducting residual value. The residual value, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, period and method of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the profit or loss.

2.5 Investment properties

Investment properties are properties which are owned either to earn rental income or for capital appreciation or for both. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Freehold land and projects-in-progress are stated at cost and are not depreciated. Other investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any, consistent with the accounting policy for property, plant and equipment as stated in note 2.4.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Investment properties (continued)

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalised borrowing costs.

Depreciation is recognised in the profit or loss on a straight-line basis over their estimated useful lives ranging between 10 and 50 years for buildings.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between net disposal proceeds and the carrying amount is recognised in the profit or loss in the period in which the item is derecognised.

2.6 Land held for development

Land held for development consists of land or such portions thereof on which no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle. Such land is classified as non-current asset and is stated at the lower of cost and net realisable value consistent with the accounting policy for inventories as stated in note 2.16.

Cost includes acquisition cost of land and attributable development expenditure. Cost associated with the acquisition of land includes the purchase price of the land, professional fees, stamp duties, commissions, conversion fees and other relevant levies. Development expenditure includes the cost for development of main infrastructure works.

Land held for development is reclassified as properties under development at the point when development activities have commenced and where it can be demonstrated that the development activities can be completed within the normal operating cycle. Properties under development is, in turn, reclassified as developed properties held for sale upon completion of the development activities.

Properties under development and developed properties held for sale are recognised as trade and other inventories in current assets. The accounting policy is described separately in note 2.16.

2.7 Leased assets

A lease arrangement is accounted for as finance or operating lease in accordance with the accounting policy as stated below. When the fulfilment of an arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset, it is accounted for as a lease in accordance with the accounting policy below although the arrangement does not take the legal form of a lease.

Finance lease

A lease is recognised as a finance lease if it transfers substantially to the Group and the Company all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in the statement of financial position as non-current liabilities.

Minimum lease payments made under finance leases are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss and allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

Contingent lease payments, if any, are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Leased assets (continued)

Finance lease (continued)

Leasehold land which in substance is a finance lease is classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

Operating lease

All leases that do not transfer substantially to the Group and the Company all the risks and rewards incidental to ownership are classified as operating leases and, the leased assets are not recognised on the Group's and the Company's statement of financial position.

Payments made under operating leases are recognised as an expense in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as a reduction of rental expense over the lease term on a straight-line basis. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

Prepaid lease payments

Prepaid rental and leasehold land which in substance is an operating lease are classified as prepaid lease payments. The payments made on entering into a lease arrangement or acquiring a leasehold land are accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

2.8 Investments

Long term investments in subsidiaries, associates and joint ventures are stated at cost less impairment loss, if any, in the Company's financial statements unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

The carrying amount of these investments includes fair value adjustments on shareholder's loans and advances, if any (note 2.12(i)).

2.9 Intangible assets

Goodwill

Goodwill arising from business combinations is initially measured at cost as described in note 2.1. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is reviewed for impairment when there is objective evidence of impairment.

Exploration expenditure

Intangible assets also include expenditure on the exploration for and evaluation of oil and natural gas resources (hereinafter collectively referred to as "exploration expenditure"). The accounting policy for exploration expenditure is described separately in note 2.10.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Intangible assets (continued)

Other intangible assets

Intangible assets other than goodwill and exploration expenditure are measured on initial recognition at cost. The costs of intangible assets acquired in a business combination are their fair values as at the date of acquisition.

Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is recognised in the profit or loss on a straight-line basis over the estimated economic useful lives, other than certain recoverable expenditure incurred under a service contract which is amortised based on unit of production method. The amortisation method and the useful life for intangible assets are reviewed at least at each reporting date. Intangible assets are assessed for impairment whenever there is an indication that the intangible assets may be impaired.

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. These intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.10 Exploration and development expenditure

The Group follows the successful efforts method of accounting for the exploration and development expenditure.

Exploration expenditure

Costs directly associated with an exploration well, including license acquisition and drilling costs, are initially capitalised as intangible assets until the results have been evaluated.

If a well does not result in successful discovery of economically recoverable volume of hydrocarbons, such costs are written off as a dry well. If hydrocarbons are found and, subject to further appraisal activity which may include the drilling of further wells, are likely to be capable of commercial development under prevailing economic conditions, the costs continue to be carried as intangible assets. All such carried costs are reviewed at least once a year to determine whether the reserves found or appraised remain economically viable. When this is no longer the case, the costs are written off.

Where development plan is commercially viable and approved by the relevant authorities, the related exploration and evaluation costs are transferred to projects-in-progress in property, plant and equipment.

Development expenditure

Development expenditure comprises all costs incurred in bringing a field to commercial production and is capitalised as incurred. The amount capitalised includes attributable interests and other financing costs incurred on exploration and development before commencement of production.

Upon commencement of production, the exploration and development expenditure initially capitalised as projects-in-progress are transferred to oil and gas properties, and are depreciated as described in the accounting policy for property, plant and equipment (note 2.4).

2.11 Non-current assets held for sale

Non-current assets and disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Non-current assets held for sale (continued)

Immediately before classification as held for sale, the assets (or all the assets and liabilities in a disposal group) are remeasured in accordance with the Group's applicable accounting policies. Thereafter, on initial classification as held for sale, the assets or disposal groups are measured at the lower of carrying amount and fair value less cost to sell. Any differences are charged to the profit or loss.

Intangible assets, property, plant and equipment and investment properties once classified as held for sale are not amortised nor depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

2.12 Financial instruments

A financial instrument is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

(i) Financial assets

Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group and the Company determine the classification of financial assets at initial recognition.

Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, any directly attributable transaction costs.

Purchases or sales under a contract whose terms require delivery of financial assets within a timeframe established by regulation or convention in the marketplace concerned ("regular way purchases") are recognised on the trade date i.e. the date that the Group and the Company commit to purchase or sell the financial asset.

Fair value adjustments on shareholder's loans and advances at initial recognition, if any, are added to the carrying value of investments in the Company's financial statements.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial assets that are specifically designated into this category upon initial recognition.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss. The methods used to measure fair value are stated in note 2.25.

Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market. Subsequent to initial recognition, financial assets categorised as loans and receivables are measured at amortised cost using the effective interest method (note 2.12(vi)).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

(i) Financial assets (continued)

Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Company has positive intention and ability to hold the assets to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method (note 2.12(vi)).

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity, the entire category would be tainted and reclassified as available-for-sale, and prevent the Group and the Company from classifying investment as held-to-maturity for the current and the following two financial years.

Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised directly in other comprehensive income and accumulated under available-for-sale reserve in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is reclassified to the profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (note 2.13(i)).

(ii) Financial liabilities

Initial recognition

Financial liabilities are classified as financial liabilities at fair value through profit or loss or loans and borrowings (i.e. financial liabilities measured at amortised cost), as appropriate. The Group and the Company determine the classification of financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, any directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

(ii) Financial liabilities (continued)

Subsequent measurement (continued)

Loans and borrowings

Subsequent to initial recognition, loans and borrowings are measured at amortised cost using the effective interest method (note 2.12(vi)).

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Financial guarantee contracts are amortised on a straight-line basis over the contractual period of the debt instrument. Where the guarantee does not have a specific period, the guarantee will only be recognised in the profit or loss upon discharge of the guarantee.

When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Derivative financial instruments

The Group and the Company use derivative financial instruments such as interest rate and foreign currency swaps, forward rate contracts, futures and options, to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are recognised in the profit or loss.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

In general, contracts to sell or purchase non-financial items to meet expected own use requirements are not accounted for as financial instruments. However, contracts to sell or purchase commodities that can be net settled or which contain written options are required to be recognised at fair value, with gains and losses recognised in the profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial instruments (continued)

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

(vi) Amortised cost of financial instruments

Amortised cost is computed using the effective interest method. This method uses effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

(vii) Derecognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement without retaining control of the asset or substantially all the risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

2.13 Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries, investments in associates and investments in joint ventures) are assessed at each reporting date to determine whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment (continued)

(i) Financial assets (continued)

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets, other than inventories, amount due from contract customers, deferred tax assets and non-current assets or disposal groups classified as held for sale, are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

A cash-generating unit is the smallest identifiable asset group that generates cash flows from continuing use that are largely independent from other assets and groups. An impairment loss recognised in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less cost to sell and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed in a subsequent period. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Reversals of impairment losses are credited to the profit or loss in the year in which the reversals are recognised.

2.14 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances, deposits with licensed financial institutions and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and deposits restricted, if any.

2.15 Construction work-in-progress

Construction work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Construction work-in-progress (continued)

Construction work-in-progress is presented as part of trade and other receivables as amount due from contract customers in the statement of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as amount due to contract customers which is part of trade and other payables in the statement of financial position.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost of crude oil and condensates includes costs of bringing the inventories to their present location and condition and is determined on a weighted average basis.

Cost of petroleum products includes crude oil costs, export duty, transportation charges and processing costs and is determined on a weighted average basis.

Cost of liquefied natural gas ("LNG") and petrochemical products includes raw gas costs and production overheads and is determined on a weighted average basis.

Cost of material stores and spares consists of the invoiced value from suppliers and import duty charges and is determined on a weighted average basis.

Cost of developed properties held for sale and properties under development consists of costs associated with the acquisition of land, all costs that are directly attributable to development activities, appropriate proportions of common costs attributable to developing the properties, and interest expenses incurred during the period of active development.

During the financial year, the Group has changed its accounting policy with respect to inventory valuation for gas trading activities. Where forward and future sale and purchase contracts for gas have been determined to be for trading purposes, the associated sales and purchases are reported net within sales. Consequently, the associated inventories are stated at fair value less costs to sell and any changes in fair value are recognised in the profit or loss by applying the exemption permitted under MFRS 102 *Inventories* for commodity broker-trader. The changes will provide more relevant information about the effects of transactions to the Group's financial position and financial performance.

The change in accounting policy has been made retrospectively and in accordance with MFRS 108 *Accounting Policies, Changes in Estimates and Errors* and the impact on comparative information are disclosed in note 46. The change above did not have a significant impact on the Group's profit or loss and net assets of the previous years.

2.17 Provisions

A provision is recognised if, as a result of a past event, the Group and the Company have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future net cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the accretion in the provision due to the passage of time is recognised as finance cost.

The amount recognised as a provision is the best estimate of the net expenditure required to settle the present obligation at the reporting date. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Provisions (continued)

Possible obligations whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group, are not recognised in the financial statements but are disclosed as contingent liabilities unless the possibility of an outflow of economic resources is considered remote.

In particular, information about provisions that have the most significant effect on the amount recognised in the financial statements is described in note 24.

2.18 Employee benefits

Short term benefits

Wages and salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and the Company.

Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF").

Some of the Group's foreign subsidiaries make contributions to their respective countries' statutory pension schemes and certain other independently-administered funds which are defined contribution plans.

Such contributions are recognised as an expense in the profit or loss as incurred.

2.19 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using the statutory tax rates at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and other unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unabsorbed capital allowances, unused reinvestment allowances, unused investment tax allowances, unused tax losses and other unused tax credits can be utilised.

Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill and the initial recognition of an asset or liability in a transaction which is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Taxation (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities where they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the future taxable profit will be available against which the related tax benefit can be realised.

2.20 Foreign currency transactions

In preparing the financial statements of individual entities in the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currencies at rates of exchange ruling on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the reporting date have been retranslated to the functional currency at rates ruling on the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies, which are measured at fair value, are retranslated to the functional currency at the foreign exchange rates ruling at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

Gains and losses on exchange arising from retranslation are recognised in the profit or loss, except for differences arising on retranslation of available-for-sale equity instruments, which are recognised in equity.

On consolidation, the assets and liabilities of subsidiaries with functional currencies other than Ringgit Malaysia, are translated into Ringgit Malaysia at the exchange rates ruling at reporting date, except for goodwill and fair value adjustments arising from business combinations before 1 April 2011 which are treated as assets and liabilities of the acquirer company pursuant to the adoption of MFRS framework.

The income and expenses are translated at the exchange rates at the date of the transactions or an average rate that approximates those rates. All resulting exchange differences are taken to the foreign currency translation reserve within equity.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to the Group's foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in a foreign operation and are reclassified to other comprehensive income and accumulated under foreign currency translation reserve in equity. Upon disposal of the investment, the cumulative exchange differences previously recorded in equity are reclassified to the consolidated profit or loss.

2.21 Borrowing costs and foreign currency exchange differences relating to projects-in-progress

Borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to be prepared for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are completed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Borrowing costs and foreign currency exchange differences relating to projects-in-progress (continued)

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is the weighted average of the borrowing costs applicable to borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of financing a specific qualifying asset, in which case the actual borrowing cost incurred on that borrowing less any investment income on the temporary investment of that borrowings, will be capitalised.

Exchange differences arising from foreign currency borrowings, although regarded as an adjustment to borrowing costs, are not capitalised but instead recognised in the profit or loss in the period in which they arise.

2.22 Revenue

Revenue from sale of oil and gas and their related products are recognised in the profit or loss when the risks and rewards of ownership have been transferred to the buyer.

Revenue from services rendered is recognised in the profit or loss based on actual and estimates of work done in respect of services rendered for long term project management contracts. Work done is measured based on internal certification of project activities. Full provision is made for any foreseeable losses.

Revenue arising from shipping activities are mainly from freight income and charter income. Freight income and the relevant discharged costs of cargoes loaded onto vessels up to the reporting date are accrued for in the profit or loss based on percentage of completion method. Charter income is accrued on time accrual basis.

Revenue from sale of properties is recognised in the profit or loss when the significant risks and rewards of ownership of the properties have been transferred to the buyer.

Revenue arising from rental income of investment properties is recognised on a straight-line basis over the term of the lease under the lease arrangement per note 34.

Revenue arising from assets yielding interest is recognised on a time proportion basis that takes into account the effective yield on the assets.

Revenue arising from investments yielding dividend is recognised when the shareholders' right to receive payment is established.

During the financial year, the Group has changed its accounting policy with respect to revenue reporting for gas trading activities. Where forward and future sale and purchase contracts for gas have been determined to be for trading purposes, the associated sales and purchases are reported net within sales. The changes will provide more relevant information about the effects of transactions to the Group's financial position and financial performance.

The change in accounting policy has been made retrospectively and in accordance with MFRS 108 *Accounting Policies, Changes in Estimates and Errors* and the impact on comparative information are disclosed in note 46. The change above did not have a significant impact on the Group's profit or loss and net assets of the previous years.

2.23 Financing costs

Financing costs comprise interest payable on borrowings and profit sharing margin on Islamic Financing Facilities, as well as accretion in provision due to the passage of time.

All interest and other costs incurred in connection with borrowings are expensed as incurred, other than that capitalised in accordance with the accounting policy stated in note 2.21. The interest component of finance lease payments is accounted for in accordance with the policy set out in note 2.7.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the PETRONAS Executive Leadership Team, to make decisions about resources to be allocated to the segment and to assess its performance.

2.25 Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

(i) Financial instruments

The fair value of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market prices at the close of business at the end of reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

(ii) Non-financial assets

For non-financial assets, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group and the Company use observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable input).

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

2.26 Government grants

Government grant related to assets, including non-monetary grants at fair value, is deducted against the construction cost of the asset. Subsequently, the grant is recognised in profit or loss on a systematic basis over the life of the asset as a reduced depreciation expense.

3. PROPERTY, PLANT AND EQUIPMENT

Group
2017

In RM Mil	At 1.1.2017	Additions	Disposals/ write-offs	Disposal of subsidiaries
At cost:				
Freehold land	2,553	2	(6)	-
Leasehold land	6,908	62	(15)	(10)
Lease properties	440	32	(1)	-
Oil and gas properties	326,907	2,003	(12,430)	-
Buildings	18,401	164	(89)	(3)
Plant and equipment	135,691	873	(1,212)	(196)
Office equipment, furniture and fittings	3,112	75	(69)	-
Computer software and hardware	4,040	147	(140)	(2)
Motor vehicles	558	43	(44)	(3)
Vessels	42,927	1,199	(1,260)	-
Projects-in-progress				
- oil and gas properties	36,828	7,736	(269)	-
- other projects	73,339	28,208	(217)	-
	651,704	40,544	(15,752)	(214)

continue to next page

Accumulated depreciation and impairment losses:	At 1.1.2017	Charge for the year	Disposals/ write-offs	Disposal of subsidiaries
Freehold land	-	-	1	-
Leasehold land	709	111	(7)	(8)
Lease properties	382	11	-	-
Oil and gas properties	205,956	17,726	(11,688)	-
Buildings	7,071	528	(60)	(2)
Plant and equipment	71,941	6,213	(1,196)	(100)
Office equipment, furniture and fittings	2,310	254	(55)	-
Computer software and hardware	2,921	438	(115)	(1)
Motor vehicles	360	49	(33)	(2)
Vessels	20,441	2,049	(1,206)	-
Projects-in-progress				
- oil and gas properties	5,499	-	(233)	-
- other projects	137	-	(113)	-
	317,727	27,379	(14,705)	(113)

continue to next page

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group 2017 *In RM Mil*	Transfers/ reclass/ adjustments	Translation exchange difference	At 31.12.2017
At cost:			
Freehold land	31	(32)	2,548
Leasehold land	448	(19)	7,374
Lease properties	839	(15)	1,295
Oil and gas properties	15,353	(14,133)	317,700
Buildings	306	(216)	18,563
Plant and equipment	19,635	(6,569)	148,222
Office equipment, furniture and fittings	480	(54)	3,544
Computer software and hardware	162	(59)	4,148
Motor vehicles	(32)	(15)	507
Vessels	1,573	(4,070)	40,369
Projects-in-progress			
- oil and gas properties	(15,961)	(1,411)	26,923
- other projects	(28,929)	(5,085)	67,316
	[a,b,c] (6,095)	(31,678)	638,509

continued from previous page

Accumulated depreciation and impairment losses:	Impairment loss/(write-back)	Transfers/ reclass/ adjustments	Translation exchange difference	At 31.12.2017
Freehold land	-	(1)	-	-
Leasehold land	-	(15)	(10)	780
Lease properties	-	107	(14)	486
Oil and gas properties	(2,509)	(195)	(10,657)	198,633
Buildings	26	(483)	(47)	7,033
Plant and equipment	3,359	(520)	(2,889)	76,808
Office equipment, furniture and fittings	1	(87)	(15)	2,408
Computer software and hardware	(1)	(139)	(47)	3,056
Motor vehicles	-	(38)	(10)	326
Vessels	685	(1,595)	(1,761)	18,613
Projects-in-progress				
- oil and gas properties	(1,913)	(2)	(470)	2,881
- other projects	5	(26)	24	27
	(347)	[c,d] (2,994)	(15,896)	311,051

continued from previous page

a Includes net downward revision to future cost of decommissioning of oil and gas properties amounting to RM515 million.

b Includes net transfer out of RM5,497 million comprising transfers to assets held for sale of RM4,715 million, other receivables of RM1,131 million, prepaid lease payments of RM333 million and investment properties of RM14 million and transfers from intangible assets of RM696 million.

c Includes reclassification of certain assets from cost to accumulated depreciation of RM83 million.

d Includes net transfer out of RM2,911 million comprising transfers to assets held for sale of RM2,823 million, intangible assets of RM39 million, other receivables of RM25 million and prepaid lease payments of RM24 million.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group **2016** *In RM Mil*	**At 1.1.2016**	**Additions**	**Disposals/ write-offs**	**Acquisition/ (disposal) of subsidiaries**
At cost:				
Freehold land	2,697	1	(8)	(10)
Leasehold land	2,599	2	-	-
Lease properties	438	-	-	-
Oil and gas properties	293,984	893	(937)	-
Buildings	18,057	142	(157)	(201)
Plant and equipment	117,653	1,324	(581)	(511)
Office equipment, furniture and fittings	2,994	56	(54)	(9)
Computer software and hardware	3,422	283	(99)	(27)
Motor vehicles	621	45	(22)	(145)
Vessels	40,038	501	(423)	1,184
Projects-in-progress				
- oil and gas properties	45,258	11,034	(219)	-
- other projects	64,508	32,263	(834)	(1)
	592,269	46,544	(3,334)	280

continue to next page

Accumulated depreciation and impairment losses:	**At 1.1.2016**	**Charge for the year**	**Disposals/ write-offs**	**Acquisition/ (disposal) of subsidiaries**
Freehold land	-	-	-	-
Leasehold land	631	74	-	-
Lease properties	359	11	-	-
Oil and gas properties	183,879	14,427	(576)	-
Buildings	6,491	459	(136)	(47)
Plant and equipment	64,460	4,772	(514)	(497)
Office equipment, furniture and fittings	2,130	204	(48)	(6)
Computer software and hardware	2,565	376	(80)	(26)
Motor vehicles	406	56	(17)	(102)
Vessels	18,364	1,892	(405)	-
Projects-in-progress				
- oil and gas properties	2,689	-	-	-
- other projects	27	-	(1)	-
	282,001	22,271	(1,777)	(678)

continue to next page

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group **2016** *In RM Mil*	**Transfers/ reclass/ adjustments**	**Translation exchange difference**	**At 31.12.2016**
At cost:			
Freehold land	(163)	36	2,553
Leasehold land	4,298	9	6,908
Lease properties	(10)	12	440
Oil and gas properties	25,982	6,985	326,907
Buildings	328	232	18,401
Plant and equipment	13,998	3,808	135,691
Office equipment, furniture and fittings	93	32	3,112
Computer software and hardware	367	94	4,040
Motor vehicles	23	36	558
Vessels	(183)	1,810	42,927
Projects-in-progress			
- oil and gas properties	(19,705)	460	36,828
- other projects	(24,775)	2,178	73,339
	[a,b] 253	15,692	651,704

continued from previous page

Accumulated depreciation and impairment losses:	**Impairment loss**	**Transfers/ reclass/ adjustments**	**Translation exchange difference**	**At 31.12.2016**
Freehold land	-	-	-	-
Leasehold land	-	-	4	709
Lease properties	-	-	12	382
Oil and gas properties	3,239	(194)	5,181	205,956
Buildings	190	36	78	7,071
Plant and equipment	1,992	107	1,621	71,941
Office equipment, furniture and fittings	1	2	27	2,310
Computer software and hardware	-	12	74	2,921
Motor vehicles	2	2	13	360
Vessels	219	(439)	810	20,441
Projects-in-progress				
- oil and gas properties	3,018	(530)	322	5,499
- other projects	114	(6)	3	137
	8,775	[c,d] (1,010)	8,145	317,727

continued from previous page

a Includes net upward revision to future cost of decommissioning of oil and gas properties amounting to RM367 million.
b Includes net transfer in of RM23 million comprising transfers from intangible assets of RM1,066 million and other receivables of RM630 million and transfers to assets held for sale of RM1,390 million, investment properties of RM278 million and prepaid lease payments of RM5 million.
c Includes reclassification of certain assets from cost to accumulated depreciation of RM137 million.
d Includes net transfer out of RM873 million comprising transfers to assets held for sale of RM915 million, investment properties of RM2 million and transfer from other receivables of RM44 million.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company
2017

In RM Mil	At 1.1.2017	Additions	Disposals/ write-offs
At cost:			
Freehold land	-	-	-
Leasehold land	76	31	(16)
Lease properties	74	-	-
Oil and gas properties	24,277	1,347	(1,853)
Buildings	268	-	(69)
Plant and equipment	1,794	55	(9)
Office equipment, furniture and fittings	98	1	(8)
Computer software and hardware	300	1	(3)
Motor vehicles	24	3	(10)
Projects-in-progress			
- oil and gas properties	400	162	(233)
- other projects	810	312	-
	28,121	[a] 1,912	(2,201)

continue to next page

Accumulated depreciation and impairment losses:	At 1.1.2017	Charge for the year	Disposals/ write-offs
Freehold land	-	-	-
Leasehold land	21	2	(2)
Lease properties	68	2	-
Oil and gas properties	14,114	1,328	(1,115)
Buildings	87	3	(53)
Plant and equipment	360	81	(8)
Office equipment, furniture and fittings	95	1	(8)
Computer software and hardware	251	37	(3)
Motor vehicles	22	2	(9)
Projects-in-progress			
- oil and gas properties	233	-	-
- other projects	-	-	-
	15,251	1,456	(1,198)

continue to next page

a Includes additions of RM1,265 million arising from revision of estimated future cost of decommissioning of oil and gas properties.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company **2017** *In RM Mil*	**Transfers/ reclass/ adjustments**	**At 31.12.2017**
At cost:		
Freehold land	-	-
Leasehold land	126	217
Lease properties	-	74
Oil and gas properties	(402)	23,369
Buildings	7	206
Plant and equipment	-	1,840
Office equipment, furniture and fittings	-	91
Computer software and hardware	97	395
Motor vehicles	-	17
Projects-in-progress		
- oil and gas properties	(317)	12
- other projects	(626)	496
	[a,b] (1,115)	26,717

continued from previous page

Accumulated depreciation and impairment losses:	**Impairment write-back**	**Transfers/ reclass/ adjustments**	**At 31.12.2017**
Freehold land	-	-	-
Leasehold land	-	-	21
Lease properties	-	-	70
Oil and gas properties	(2,605)	(134)	11,588
Buildings	-	-	37
Plant and equipment	-	-	433
Office equipment, furniture and fittings	-	-	88
Computer software and hardware	-	-	285
Motor vehicles	-	-	15
Projects-in-progress			
- oil and gas properties	(233)	-	-
- other projects	-	-	-
	[c] (2,838)	[d] (134)	12,537

continued from previous page

a Includes downward revision to future cost of decommissioning of oil and gas properties amounting to RM608 million.
b Includes net transfer out to amount due from subsidiaries of RM374 million and profit and loss of RM22 million respectively.
c Includes impairment write-back of oil and gas properties of RM1,049 million upon annexation of RSC assets to PSCs.
d Includes downward revision to future cost of decommissioning of oil and gas properties amounting to RM130 million.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company **2016** *In RM Mil*	**At 1.1.2016**	**Additions**	**Disposals/ write-offs**
At cost:			
Freehold land	-	-	-
Leasehold land	76	-	-
Lease properties	74	-	-
Oil and gas properties	18,655	26	-
Buildings	237	-	-
Plant and equipment	1,794	-	-
Office equipment, furniture and fittings	98	-	-
Computer software and hardware	300	1	(1)
Motor vehicles	21	3	-
Projects-in-progress			
- oil and gas properties	334	100	-
- other projects	9,365	816	-
	30,954	946	(1)

continue to next page

Accumulated depreciation and impairment losses:	**At 1.1.2016**	**Charge for the year**	**Disposals/ write-offs**
Freehold land	-	-	-
Leasehold land	20	1	-
Lease properties	66	2	-
Oil and gas properties	11,235	810	-
Buildings	55	1	-
Plant and equipment	281	79	-
Office equipment, furniture and fittings	93	2	-
Computer software and hardware	211	41	(1)
Motor vehicles	18	4	-
Projects-in-progress			
- oil and gas properties	233	-	-
- other projects	-	-	-
	12,212	940	(1)

continue to next page

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company **2016** *In RM Mil*	**Transfers/ reclass/ adjustments**	**At 31.12.2016**
At cost:		
Freehold land	-	-
Leasehold land	-	76
Lease properties	-	74
Oil and gas properties	5,596	24,277
Buildings	31	268
Plant and equipment	-	1,794
Office equipment, furniture and fittings	-	98
Computer software and hardware	-	300
Motor vehicles	-	24
Projects-in-progress		
- oil and gas properties	(34)	400
- other projects	(9,371)	810
	[a,b] (3,778)	28,121

continued from previous page

Accumulated depreciation and impairment losses:	**Impairment loss**	**Transfers/ reclass/ adjustments**	**At 31.12.2016**
Freehold land	-	-	-
Leasehold land	-	-	21
Lease properties	-	-	68
Oil and gas properties	2,069	-	14,114
Buildings	31	-	87
Plant and equipment	-	-	360
Office equipment, furniture and fittings	-	-	95
Computer software and hardware	-	-	251
Motor vehicles	-	-	22
Projects-in-progress			
- oil and gas properties	-	-	233
- other projects	-	-	-
	2,100	-	15,251

continued from previous page

a Includes upward revision to future cost of decommissioning of oil and gas properties amounting to RM373 million.

b Includes net transfer out to amount due from subsidiaries of RM4,151 million and subsequently the amount owing was partially converted to shareholders loan.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Group		Company	
	Carrying amount		Carrying amount	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Freehold land	**2,548**	2,553	**-**	-
Leasehold land	**6,594**	6,199	**196**	55
Lease properties	**809**	58	**4**	6
Oil and gas properties	**119,067**	120,951	**11,781**	10,163
Buildings	**11,530**	11,330	**169**	181
Plant and equipment	**71,414**	63,750	**1,407**	1,434
Office equipment, furniture and fittings	**1,136**	802	**3**	3
Computer software and hardware	**1,092**	1,119	**110**	49
Motor vehicles	**181**	198	**2**	2
Vessels	**21,756**	22,486	**-**	-
Projects-in-progress				
- oil and gas properties	**24,042**	31,329	**12**	167
- other projects	**67,289**	73,202	**496**	810
	327,458	333,977	**14,180**	12,870

Security

Property, plant and equipment of certain subsidiaries costing RM4,466,199,000 (2016: RM5,076,502,000) have been pledged as security for loan facilities as set out in note 22 and note 23 to the financial statements.

Projects-in-progress

Included in additions to projects-in-progress of the Group is borrowing costs capitalised during the year of RM24,269,000 (2016: RM24,401,000). The interest rate on borrowing costs capitalised is 2.30% - 3.41% (2016: 1.20% - 3.41%) per annum.

Restriction of land title

The titles to certain freehold and leasehold land are in the process of being registered in the subsidiaries' name.

Change in estimates

Effective 1 January 2017, the Group and the Company have revised the estimate of its oil and gas reserves base for the purposes of amortisation computation from proved and probable equity reserves to proved entitlement reserves as a more appropriate reflection of the future benefits expected to be derived by the Group from the utilisation of the oil and gas properties. The revision was accounted for prospectively as a change in accounting estimates resulting in increase of amortisation of oil and gas properties for the Group and the Company by RM3,955,000,000 and RM176,000,000 respectively.

During the year, the Company revised the estimated future cost of decommissioning of oil and gas properties. The revision was accounted for prospectively as a change in accounting estimates resulting in increase in the cost of oil and gas properties by RM865,000,000 (refer note 24).

Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Group's and the Company's investment decision-making process. Estimation of oil and gas reserves are conducted using industry recognised method.

The term "reserves" describes the recoverable quantity of oil and gas volumes that are commercially viable for development given the prevailing economic situation present at the time of estimation.

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Estimation of oil and gas reserves (continued)

Reserves estimates are normally presented alongside the range of level of certainties namely P1 (proved reserves; high level of certainty), P2 (probable reserves; mean level of certainty) and P3 (possible reserves; low level of certainty). The level of certainties depends on the availability and understanding of the geological and reservoir data available at the time of estimation and is normally represented in the form of probability distribution.

The reserves are further subdivided into developed and undeveloped categories. Developed reserves are reserves expected to be recovered through existing wells and facilities under the operating conditions that have been designed for. Undeveloped reserves are reserves to be recovered from approved and sanctioned projects and remain so until the wells are drilled, completed and production commences which would by then be classified as developed.

Estimation of reserves are reviewed annually. These estimates are inherently imprecise, require the application of judgements and are subject to regular revision, either upward or downward, based on new information available such as new geological information gathered from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Such revisions will impact the Group's and the Company's reported financial position and results which include:

i) carrying value of oil and gas properties and their corresponding amortisation charges;
ii) carrying value of projects-in-progress;
iii) provisions for decommissioning and restoration; and
iv) carrying value of deferred tax assets/liabilities.

Impairment review of property, plant and equipment

As at 31 December 2017, the Group and the Company recognised net write-back of impairment losses on certain property, plant and equipment amounting to RM347,000,000 (2016: impairment losses charged amounting to RM8,775,000,000) in administrative expenses and write-back of impairment losses of RM2,838,000,000 (2016: impairment losses charged amounting to RM2,100,000,000) in cost of revenue respectively. The impairment losses written back is primarily related to oil and gas properties mainly as a result of higher gas sales and cost optimisation.

In arriving at the net impairment write-back amounts, the carrying amount of each previously impaired cash-generating unit is compared with the recoverable amount of the cash-generating unit. The Group's and the Company's recoverable amount for impaired cash-generating unit of RM63,365,000,000 (2016: RM28,753,000,000) and RM10,344,000,000 (2016: RM6,587,000,000) respectively were determined from the value in use calculations, using cash flow projections.

The Group and the Company uses a range of long term assumptions including prices, volumes, margins and costs based on past performance and management's expectations of market development. The projected cash flows were discounted using discount rates ranging between 7.1% and 11.0% (2016: 6.6% and 10.3%).

4. INVESTMENT PROPERTIES

Group

2017 *In RM Mil*	**At 1.1.2017**	**Additions**	**Disposals/ write-offs**
At cost:			
Freehold land	**1,506**	**-**	**-**
Buildings	**13,589**	**38**	**(7)**
Projects-in-progress	**641**	**310**	**-**
	15,736	**348**	**(7)**

continue to next page

Accumulated depreciation:	**At 1.1.2017**	**Charge for the year**	**Disposals/ write-offs**
Freehold land	**-**	**-**	**-**
Buildings	**5,380**	**513**	**(1)**
Projects-in-progress	**-**	**-**	**-**
	5,380	**513**	**(1)**

continue to next page

2016 *In RM Mil*	**At 1.1.2016**	**Additions**	**Disposals/ write-offs**
At cost:			
Freehold land	1,377	-	-
Buildings	13,428	5	(10)
Projects-in-progress	249	391	-
	15,054	396	(10)

continue to next page

Accumulated depreciation:	**At 1.1.2016**	**Charge for the year**	**Disposals/ write-offs**
Freehold land	-	-	-
Buildings	4,877	495	(6)
Projects-in-progress	-	-	-
	4,877	495	(6)

continue to next page

4. INVESTMENT PROPERTIES (CONTINUED)

Group 2017 *In RM Mil*	Transfers/ reclass	Translation exchange difference	At 31.12.2017
At cost:			
Freehold land	**3**	**(1)**	**1,508**
Buildings	**901**	**(40)**	**14,481**
Projects-in-progress	**(888)**	**-**	**63**
	[a] 16	**(41)**	**16,052**

continued from previous page

Accumulated depreciation:	Transfers/ reclass	Translation exchange difference	At 31.12.2017
Freehold land	**-**	**-**	**-**
Buildings	**-**	**(27)**	**5,865**
Projects-in-progress	**-**	**-**	**-**
	-	**(27)**	**5,865**

continued from previous page

2016 *In RM Mil*	Transfers/ reclass	Translation exchange difference	At 31.12.2016
At cost:			
Freehold land	129	-	1,506
Buildings	148	18	13,589
Projects-in-progress	1	-	641
	[b] 278	18	15,736

continued from previous page

Accumulated depreciation:	Transfers/ reclass	Translation exchange difference	At 31.12.2016
Freehold land	-	-	-
Buildings	2	12	5,380
Projects-in-progress	-	-	-
	[c] 2	12	5,380

continued from previous page

a Includes transfer in from property, plant and equipment of RM14 million and other receivables of RM2 million.
b Includes transfer in from property, plant and equipment of RM278 million.
c Includes transfer in from property, plant and equipment of RM2 million.

4. INVESTMENT PROPERTIES (CONTINUED)

Group	**Carrying amount**	
In RM Mil	**2017**	**2016**
Freehold land	**1,508**	1,506
Buildings	**8,616**	8,209
Projects-in-progress	**63**	641
	10,187	10,356

Included in investment properties is borrowing costs capitalised during the year for assets under construction of the Group of RM18,763,000 (2016: RM10,779,000).

Fair value information

The Directors have estimated the fair value of investment properties as at 31 December 2017 to be RM20,871,000,000 (2016: RM19,711,000,000).

The fair value of investment properties are categorised as follows:

Group	**Level 3**	
In RM Mil	**2017**	**2016**
Freehold land	**2,117**	1,795
Buildings	**18,754**	17,916
	20,871	19,711

The Group uses various valuation techniques in determining the fair value of its investment properties. Such techniques include discounted cash flows method, investment method and market comparable method.

5. LAND HELD FOR DEVELOPMENT

Included in land held for development is freehold land amounting to RM2,835,000,000 (2016: RM2,986,000,000).

6. PREPAID LEASE PAYMENTS

Group 2017 *In RM Mil*	At 1.1.2017	Additions	Disposals	Charge for the year	Transfers	Translation exchange difference	At 31.12.2017
Leasehold land	**252**	**-**	**-**	**(15)**	**234**	**(1)**	**470**
Prepaid rental	**809**	**3**	**(15)**	**(37)**	**28**	**(5)**	**783**
	1,061	**3**	**(15)**	**(52)**	[a] **262**	**(6)**	**1,253**

Group 2016 *In RM Mil*	At 1.1.2016	Additions	Disposals	Charge for the year	Transfers	Translation exchange difference	At 31.12.2016
Leasehold land	173	77	-	(2)	5	(1)	252
Prepaid rental	854	13	(4)	(37)	-	(17)	809
	1,027	90	(4)	(39)	[b] 5	(18)	1,061

Restrictions of land title

The title to certain leasehold land is in the process of being registered in the subsidiary's name. Certain long term leasehold land of the Group cannot be disposed of, charged or sub-leased without the prior consent of the relevant authority.

7. INVESTMENTS IN SUBSIDIARIES

In RM Mil	Company 2017	2016
Investments at cost		
- quoted shares	**17,064**	17,064
- unquoted shares	**113,107**	69,772
Fair value adjustments on loans and advances and financial guarantee	**8,372**	9,292
	138,543	96,128
Less: Impairment losses		
- unquoted shares	**(1,839)**	(1,839)
	136,704	94,289
Market value of quoted shares	**101,572**	101,801

Details of key subsidiaries are stated in note 43 to the financial statements.

a Includes transfer in from property, plant and equipment of RM309 million and transfer out to other receivables of RM30 million and assets held for sale of RM17 million.

b Includes transfer out to property, plant and equipment of RM5 million.

8. INVESTMENTS IN ASSOCIATES

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Investments at cost				
- quoted shares	**263**	263	**302**	302
- unquoted shares	**7,346**	6,966	**-**	-
Share of post-acquisition profits and reserves	**1,381**	2,394	**-**	-
	8,990	9,623	**302**	302
Less: Impairment losses				
- unquoted shares	**(2,133)**	(3,006)	**-**	-
	6,857	6,617	**302**	302
Market value of quoted shares	**1,360**	1,293	**767**	824
Share of associates' contingent liabilities:				
Guarantees extended to third parties	**(182)**	(200)	**-**	-

Details of key associates are stated in note 44 to the financial statements.

9. INVESTMENTS IN JOINT VENTURES

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Investments at cost				
- unquoted shares	**3,991**	4,176	**624**	624
Fair value adjustments on financial guarantee	**377**	717	**377**	717
Share of post-acquisition profits and reserves	**2,103**	2,614	**-**	-
	6,471	7,507	**1,001**	1,341
Less: Impairment losses	**(236)**	(94)	**(9)**	(9)
	6,235	7,413	**992**	1,332
Share of joint ventures' contingent liabilities:				
Claims filed by/disputes with various parties	**(14)**	(4)	**(14)**	(4)

Details of key joint ventures are stated in note 45 to the financial statements.

10. INTANGIBLE ASSETS

Group 2017 *In RM Mil*	At 1.1.2017	Additions	Disposals/ write-offs
At cost:			
Goodwill	**5,931**	**-**	**-**
Exploration expenditure	**27,569**	**1,719**	**(1,376)**
Other intangible assets	**26,730**	**2,417**	**(333)**
	60,230	**4,136**	**(1,709)**

continue to next page

Accumulated amortisation and impairment losses:	At 1.1.2017	Charge for the year	Disposals/ write-offs
Goodwill	**571**	**-**	**-**
Exploration expenditure	**12,115**	**-**	**(445)**
Other intangible assets	**21,992**	**2,581**	**(285)**
	34,678	**2,581**	**(730)**

continue to next page

2016 *In RM Mil*	At 1.1.2016	Additions	Disposals/ write-offs
At cost:			
Goodwill	5,877	-	-
Exploration expenditure	32,371	2,306	(7,209)
Other intangible assets	23,606	2,033	(89)
	61,854	4,339	(7,298)

continue to next page

Accumulated amortisation and impairment losses:	At 1.1.2016	Charge for the year	Disposals/ write-offs
Goodwill	552	-	-
Exploration expenditure	8,470	-	(448)
Other intangible assets	18,528	2,504	(36)
	27,550	2,504	(484)

continue to next page

10. INTANGIBLE ASSETS (CONTINUED)

Group **2017** *In RM Mil*	**Transfers**	**Translation exchange difference**	**At 31.12.2017**
At cost:			
Goodwill	**(134)**	**(107)**	**5,690**
Exploration expenditure	**(824)**	**(1,733)**	**25,355**
Other intangible assets	**(6)**	**(2,430)**	**26,378**
	[a] (964)	**(4,270)**	**57,423**

continued from previous page

Accumulated amortisation and impairment losses:	**Impairment loss**	**Transfers**	**Translation exchange difference**	**At 31.12.2017**
Goodwill	**-**	**-**	**5**	**576**
Exploration expenditure	**991**	**-**	**(712)**	**11,949**
Other intangible assets	**533**	**37**	**(2,039)**	**22,819**
	1,524	**[b] 37**	**(2,746)**	**35,344**

continued from previous page

2016 *In RM Mil*	**Transfers**	**Translation exchange difference**	**At 31.12.2016**
At cost:			
Goodwill	-	54	5,931
Exploration expenditure	(1,061)	1,162	27,569
Other intangible assets	(5)	1,185	26,730
	[c] (1,066)	2,401	60,230

continued from previous page

Accumulated amortisation and impairment losses:	**Impairment loss**	**Transfers**	**Translation exchange difference**	**At 31.12.2016**
Goodwill	-	-	19	571
Exploration expenditure	3,698	7	388	12,115
Other intangible assets	11	(2)	987	21,992
	3,709	[d] 5	1,394	34,678

continued from previous page

a Includes net transfer out to property, plant and equipment of RM696 million and assets held for sale of RM300 million and transfer in from other receivables of RM32 million.

b Includes net transfer in from property, plant and equipment of RM39 million and transfer out to other receivables of RM2 million.

c Includes net transfer out to property, plant and equipment of RM1,066 million.

d Includes net transfer in from other receivables of RM5 million.

10. INTANGIBLE ASSETS (CONTINUED)

Group	**Carrying amount**	
In RM Mil	**2017**	**2016**
Goodwill	**5,114**	5,360
Exploration expenditure	**13,406**	15,454
Other intangible assets	**3,559**	4,738
	22,079	25,552

Impairment review of goodwill

For the purpose of impairment testing, goodwill is allocated to groups of cash-generating units which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the cash-generating unit. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value of a cash-generating unit, the value in use is deemed to be the recoverable amount.

Included in goodwill is an amount of RM3,987,000,000 (2016: RM3,987,000,000) arising from the acquisition of PETRONAS Lubricants Italy S.p.A Group ("PLI Group"). The recoverable amount of PLI Group unit was based on its value in use and was determined with the assistance of independent valuers. The value in use was determined by using the discounted cash flow method based on management's business plan cash flow projections for 5 financial years from 2018 to 2022, adjusted with an estimated terminal value. The cash flow assumes a long term growth rate of Nil (2016: Nil) and is discounted to present value using discount rate of between 7.1% and 8.2% (2016: 7.8% and 8.4%).

Based on the above, the recoverable amount of the unit of RM5,450,000,000 (2016: RM5,777,000,000) was determined to be higher than its carrying amount of RM3,753,000,000 (2016: RM3,731,000,000) and therefore, no impairment loss was recognised.

The above estimates are sensitive in the following areas:

(i) A decrease of 0.5 percentage point in long term growth rate used would have reduced the recoverable amount by approximately RM224,000,000.

(ii) An increase of 0.5 percentage point in discount rate used would have reduced the recoverable amount by approximately RM314,000,000.

The value in use of other remaining goodwill is derived from the respective cash-generating units' business plan cash flow projections for 5 financial years from 2018 to 2022, adjusted with an estimated terminal value. The cash flows assumes a long term average growth rate of the respective industries those units are engaged in and are discounted to present value using discount rate of between 7.5% and 10.3% (2016: 7.6% and 10.3%).

Based on the above, the carrying amount of other goodwill of certain units were determined to be lower than their recoverable amount, thus no impairment loss was recognised during the year.

10. INTANGIBLE ASSETS (CONTINUED)

Impairment review of exploration expenditure

As at 31 December 2017, the Group recognised net impairment losses on certain exploration expenditure in cost of revenue amounting to RM991,000,000 (2016: RM3,698,000,000). Impairment losses of RM1,212,000,000 (2016: RM2,692,000,000) related to an oil and gas exploration cash-generating unit ("Exploration CGU") is offset against impairment write-back of RM221,000,000 (2016: RM1,006,000,000) that is related to certain wells no longer capable of commercial development. The impairment on wells costs will be subsequently written off in accordance with the policy set out in note 2.10.

The impairment loss on Exploration CGU is mainly due to decline in commodity prices outlook. In arriving at the impairment loss amounts, the carrying amount of Exploration CGU is compared with the recoverable amount of the cash-generating unit. The recoverable amount was determined from the value in use calculations, using cash flow projections. The Group uses a range of long term assumptions including prices, volumes, margins and costs based on past performance and management's expectations of market development. The projected cash flows were discounted using a discount rate ranging between 7.5% and 11.0% (2016: 7.5% and 8.5%).

11. LONG TERM RECEIVABLES

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Term loans and advances:				
Loans and advances due from subsidiaries	**-**	-	**116,964**	161,258
Loans and advances due from associates and joint ventures	**1,525**	1,504	**-**	-
	1,525	1,504	**116,964**	161,258
Finance lease receivables	**9,371**	10,314	**-**	-
Other receivables and prepayments	**3,913**	2,439	**631**	631
Derivative assets (note 13)	**30**	2	**-**	-
	14,839	14,259	**117,595**	161,889
Less: Impairment losses				
- Term loans and advances	**(767)**	(755)	**-**	-
- Other receivables and prepayments	**(79)**	(86)	**-**	-
	13,993	13,418	**117,595**	161,889

Included in the Company's loans and advances due from subsidiaries is an amount of RM113,345,668,000 (2016: RM141,014,799,000), which bears interest at rates ranging from 2.00% to 5.40% (2016: 2.00% to 5.00%) per annum.

Included in the Group's loans and advances due from associates and joint ventures is an amount of RM1,469,550,000 (2016: RM1,504,074,000), which bears interest at rates ranging from 4.50% to 10.00% (2016: 4.50% to 10.00%) per annum.

11. LONG TERM RECEIVABLES (CONTINUED)

Finance lease receivables

Finance lease receivables represent lease rental and interest receivable due from customers in relation to the lease of offshore floating assets by the Group:

In RM Mil	Group 2017	2016
Minimum lease receivables:		
Not later than 1 year	**1,418**	2,178
Later than 1 year and not later than 2 years	**1,385**	1,498
Later than 2 years and not later than 5 years	**3,860**	3,405
Later than 5 years	**7,659**	9,635
	14,322	16,716
Less: Future finance income	**(4,154)**	(4,907)
Present value of finance lease assets	**10,168**	11,809
Present value of finance lease assets:		
Not later than 1 year	**797**	1,495
Later than 1 year and not later than 2 years	**809**	896
Later than 2 years and not later than 5 years	**2,522**	1,893
Later than 5 years	**6,040**	7,525
	10,168	11,809
Analysed as:		
Due within 12 months (note 16)	**797**	1,495
Due after 12 months	**9,371**	10,314
	10,168	11,809

The effective interest rate of the Group's finance lease receivables is between 5.65% to 5.89% (2016: 5.76% to 5.86%). Included in minimum lease receivables are the estimated unguaranteed residual values of the leased assets of RM89,359,000 (2016: RM98,715,000).

12. FUND AND OTHER INVESTMENTS

In RM Mil	Group 2017	2016	Company 2017	2016
Non-current				
Available-for-sale				
Quoted shares	**64**	67	**-**	-
Quoted securities	**37**	34	**-**	-
Unquoted shares	**482**	744	**76**	76
	583	845	**76**	76
Less: Impairment losses				
Unquoted shares	**(39)**	(59)	**-**	-
Total non-current investments	**544**	786	**76**	76

12. FUND AND OTHER INVESTMENTS (CONTINUED)

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Current				
Available-for-sale				
Quoted shares	**3,177**	5,167	**9**	54
Malaysian Government Securities	**9**	9	**-**	9
Corporate Private Debt Securities	**2,854**	2,648	**597**	3,572
	6,040	7,824	**606**	3,635
Fair value through profit or loss				
- Designated upon initial recognition				
Quoted shares	**554**	462	**-**	-
Quoted securities	**1,106**	287	**-**	-
Malaysian Government Securities	**33**	38	**33**	38
Corporate Private Debt Securities	**21**	866	**741**	845
	1,714	1,653	**774**	883
Total current investments	**7,754**	9,477	**1,380**	4,518
Total fund and other investments	**8,298**	10,263	**1,456**	4,594
Representing items:				
At amortised cost	**480**	719	**76**	76
At fair value	**7,818**	9,544	**1,380**	4,518
	8,298	10,263	**1,456**	4,594

Included in Corporate Private Debt Securities of the Company are securities issued by subsidiaries and a joint venture amounting to RM620,000,000 (2016: RM1,770,000,000).

In 2016, as part of the Group's plan to review its portfolio investment mix, the Group and the Company have sold more than insignificant amount of held-to-maturity investments. As a result, the whole held-to-maturity category has been tainted and reclassified as available-for-sale. The carrying amount and fair value of the held-to-maturity investments reclassified into available-for-sale as at disposal and reclassification date are as follows:

In RM Mil	**Group**	**Company**
Carrying amount	8,578	7,338
Fair value	8,671	7,419

13. DERIVATIVE ASSETS/(LIABILITIES)

In RM Mil	Note	Group 2017	Group 2016	Company 2017	Company 2016
Derivative assets					
Non-current					
Forward foreign exchange contracts		**-**	2	**-**	-
Interest rate swap		**30**	-	**-**	-
		30	2	**-**	-
Current					
Commodity swaps		**-**	4	**-**	-
Forward gas contracts		**166**	285	**-**	-
Forward foreign exchange contracts		**219**	15	**8**	13
Forward oil/gas price swaps		**64**	-	**-**	-
		449	304	**8**	13
Included within:					
Long term receivables	11	**30**	2	**-**	-
Trade and other receivables	16	**449**	304	**8**	13
		479	306	**8**	13
Derivative liabilities					
Non-current					
Interest rate swaps		**-**	(1)	**-**	-
Forward gas contracts		**-**	(7)	**-**	-
		-	(8)	**-**	-
Current					
Commodity swaps		**(51)**	(113)	**-**	-
Forward oil/gas price swaps		**(95)**	(147)	**-**	-
Forward foreign exchange contracts		**(117)**	(162)	**(21)**	(3)
Forward gas contracts		**(221)**	(382)	**-**	-
		(484)	(804)	**(21)**	(3)
Included within:					
Other long term liabilities and provisions	24	**-**	(8)	**-**	-
Trade and other payables	25	**(484)**	(804)	**(21)**	(3)
		(484)	(812)	**(21)**	(3)

In the normal course of business, the Group and the Company enter into derivative financial instruments to manage their normal business exposures in relation to commodity prices, foreign currency exchange rates and interest rates, including management of the balance between floating rate and fixed rate debt, consistent with risk management policies and objectives.

Certain subsidiaries of the Group adopt hedge accounting whereby hedges meeting the criteria for hedge accounting are classified as cash flow hedges. The effective portion of the gain or loss on the hedging instruments is recognised directly in equity until the hedged transaction occurs, while the ineffective portion is recognised in the profit or loss. As at 31 December 2017, the balance recognised under capital reserves in equity amounts to RM205,000,000 (2016: RM206,000,000). As these amounts are not significant to the Group, no further disclosure of hedge accounting is presented in the Group's financial statements.

14. DEFERRED TAX

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

In RM Mil	Assets		Liabilities		Net	
Group	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Property, plant and equipment	**1,212**	664	**(14,101)**	(15,789)	**(12,889)**	(15,125)
Unused tax losses	**8,010**	8,961	**-**	-	**8,010**	8,961
Unabsorbed capital allowances	**2,606**	3,091	**-**	-	**2,606**	3,091
Unused reinvestment allowances	**222**	223	**-**	-	**222**	223
Unused investment tax allowances	**3,166**	2,767	**-**	-	**3,166**	2,767
Others	**954**	771	**(536)**	(406)	**418**	365
Tax assets/(liabilities)	**16,170**	16,477	**(14,637)**	(16,195)	**1,533**	282
Set off tax	**(6,460)**	(6,560)	**6,460**	6,560	**-**	-
Net tax assets/(liabilities)	**9,710**	9,917	**(8,177)**	(9,635)	**1,533**	282
Company						
Property, plant and equipment	**(617)**	409	**-**	-	**(617)**	409
Unused tax losses	**6,015**	6,192	**-**	-	**6,015**	6,192
Unabsorbed capital allowances	**62**	125	**-**	-	**62**	125
Others	**218**	192	**-**	-	**218**	192
Net tax assets	**5,678**	6,918	**-**	-	**5,678**	6,918

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

	Group	
In RM Mil	**2017**	**2016**
Deductible temporary differences	**3,727**	3,086
Unabsorbed capital allowances	**871**	1,368
Unused tax losses	**33,926**	32,190
Unused investment tax allowances	**152**	303
	38,676	36,947

The unabsorbed capital allowances, unused tax losses and unused investment tax allowances do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

The Group and the Company have unused tax losses carried forward of approximately RM67,301,000,000 (2016: RM69,528,000,000) and RM25,062,000,000 (2016: RM25,800,000,000) respectively, which give rise to the recognised and unrecognised deferred tax assets above.

The Group has also unabsorbed capital allowances, unused investment tax allowances and unused reinvestment allowances of approximately RM11,729,000,000 (2016: RM14,247,000,000), RM13,344,000,000 (2016: RM11,832,000,000) and RM925,000,000 (2016: RM929,000,000) respectively, which give rise to the recognised and unrecognised deferred tax assets above.

14. DEFERRED TAX (CONTINUED)

The components and movements of deferred tax liabilities and assets during the year prior to offsetting are as follows:

Group 2017 *In RM Mil*	**At 1.1.2017**	**Charged/ (credited) to profit or loss**	**Disposal of subsidiaries**	**Equity**	**Translation exchange difference**	**At 31.12.2017**
Deferred tax liabilities						
Property, plant and equipment	**15,789**	**(1,004)**	**-**	**-**	**(684)**	**14,101**
Others	**406**	**101**	**-**	**9**	**20**	**536**
	16,195	**(903)**	**-**	**9**	**(664)**	**14,637**
Deferred tax assets						
Property, plant and equipment	**(664)**	**(704)**	**-**	**-**	**156**	**(1,212)**
Unused tax losses	**(8,961)**	**805**	**-**	**-**	**146**	**(8,010)**
Unabsorbed capital allowances	**(3,091)**	**431**	**-**	**-**	**54**	**(2,606)**
Unused reinvestment allowances	**(223)**	**1**	**-**	**-**	**-**	**(222)**
Unused investment tax allowances	**(2,767)**	**(399)**	**-**	**-**	**-**	**(3,166)**
Others	**(771)**	**(176)**	**-**	**-**	**(7)**	**(954)**
	(16,477)	**(42)**	**-**	**-**	**349**	**(16,170)**

Group 2016 *In RM Mil*	**At 1.1.2016**	**Charged/ (credited) to profit or loss**	**Disposal of subsidiaries**	**Equity**	**Translation exchange difference**	**At 31.12.2016**
Deferred tax liabilities						
Property, plant and equipment	17,778	(2,383)	-	-	394	15,789
Others	415	(55)	-	32	14	406
	18,193	(2,438)	-	32	408	16,195
Deferred tax assets						
Property, plant and equipment	788	(1,479)	1	-	26	(664)
Unused tax losses	(10,294)	1,479	-	-	(146)	(8,961)
Unabsorbed capital allowances	(2,591)	(462)	-	-	(38)	(3,091)
Unused reinvestment allowances	(464)	241	-	-	-	(223)
Unused investment tax allowances	(2,197)	(570)	-	-	-	(2,767)
Others	(720)	(52)	6	-	(5)	(771)
	(15,478)	(843)	7	-	(163)	(16,477)

14. DEFERRED TAX (CONTINUED)

Company 2017 *In RM Mil*	At 1.1.2017	Charged/ (credited) to profit or loss	Transfers	At 31.12.2017
Deferred tax assets				
Unused tax losses	**(6,192)**	**177**	**-**	**(6,015)**
Property, plant and equipment	**(409)**	**744**	**282**	**617**
Unabsorbed capital allowances	**(125)**	**63**	**-**	**(62)**
Others	**(192)**	**(26)**	**-**	**(218)**
	(6,918)	**958**	**[a] 282**	**(5,678)**

2016 *In RM Mil*	At 1.1.2016	Charged/ (credited) to profit or loss	Transfers	At 31.12.2016
Deferred tax assets				
Unused tax losses	(6,563)	371	-	(6,192)
Property, plant and equipment	(265)	(144)	-	(409)
Unabsorbed capital allowances	(22)	(103)	-	(125)
Others	(180)	(12)	-	(192)
	(7,030)	112	-	(6,918)

15. TRADE AND OTHER INVENTORIES

In RM Mil	Group 2017	 2016 Restated	Company 2017	 2016
Crude oil and condensate	**3,808**	3,682	**27**	61
Petroleum products	**5,101**	4,489	**15**	23
Petrochemical products	**691**	394	**-**	-
LNG and natural gas	**1,360**	1,192	**239**	54
Stores, spares and others	**2,443**	2,507	**-**	-
Developed properties held for sale	**442**	264	**-**	-
Properties under development	**1,534**	1,391	**-**	-
	15,379	13,919	**281**	138

a Includes transfer out to investment in subsidiaries of RM282 million.

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Trade receivables	**29,995**	30,836	**5,800**	4,914
Other receivables, deposits and prepayments	**16,127**	16,455	**1,586**	1,617
Amount due from:				
- contract customers	**633**	736	**-**	-
- subsidiaries	**-**	-	**13,654**	12,064
- associates and joint ventures	**990**	125	**73**	66
Tax recoverable	**1,795**	3,068	**-**	-
Finance lease receivables (note 11)	**797**	1,495	**-**	-
Derivative assets (note 13)	**449**	304	**8**	13
	50,786	53,019	**21,121**	18,674
Less: Impairment losses				
- Trade receivables (note 40)	**(4,497)**	(5,098)	**(571)**	(373)
- Amount due from subsidiaries	**-**	-	**(151)**	(151)
- Other receivables, deposits and prepayments	**(2,254)**	(1,931)	**(15)**	(15)
	44,035	45,990	**20,384**	18,135

Amount due from subsidiaries, associates and joint ventures arose in the normal course of business.

Tax recoverable is subject to the agreement with the relevant tax authorities.

Amount due from contract customers:

	Group	
In RM Mil	**2017**	**2016**
Aggregate costs incurred to date	**13,850**	14,497
Less: Progress billings	**(13,217)**	(13,761)
	633	736

17. ASSETS CLASSIFIED AS HELD FOR SALE

	Group	
In RM Mil	**2017**	**2016**
Vessels	**123**	175
Land and buildings	**2**	1
Plant and equipment, and other net assets	**2,012**	183
Intangible assets	**296**	-
Oil and gas properties	**706**	-
	3,139	359

The above amount represents carrying values of net assets owned by the Group with the intention of disposal in the immediate future.

17. ASSETS CLASSIFIED AS HELD FOR SALE (CONTINUED)

Fair value information

In accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, assets classified as held for sale were written down to their fair value less costs to sell of RM3,139,000,000 (2016: RM141,000,000).

The fair value of assets classified as held for sale are categorised as follows:

Group		**Level 3**
In RM Mil	**2017**	**2016**
Vessels	**123**	175
Land and buildings	**2**	1
Plant and equipment, and other net assets	**2,012**	(35)
Intangible assets	**296**	-
Oil and gas properties	**706**	-
	3,139	141

The assets classified as held for sale are stated at fair value are determined based on the following:

Vessels

The fair value of the vessels has been determined based on market comparable approach including the sale price offered by potential buyer.

Land and buildings

The fair value of land and buildings has been generally derived using sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable properties.

Plant and equipment, intangible assets, oil and gas properties and other net assets

The fair value of plant and equipment, intangible assets, oil and gas properties and other assets are determined based on the contracted price agreed with potential purchaser.

18. CASH AND CASH EQUIVALENTS

		Group		**Company**
In RM Mil	**2017**	**2016**	**2017**	**2016**
Cash and bank balances	**7,904**	9,020	**1,349**	2,006
Deposits placed	**120,305**	112,472	**99,128**	101,542
	128,209	121,492	**100,477**	103,548
Less: Subsidiaries' cash with PETRONAS Integrated Financial Shared Service Centre	**-**	-	**(34,913)**	(35,122)
	128,209	121,492	**65,564**	68,426

The Company also manages the cash and cash equivalents on behalf of certain subsidiaries through its Integrated Financial Shared Service Centre in order to allow for more efficient management of cash. The cash and cash equivalents reported in the Company's financial statements do not include the amounts managed on behalf of the subsidiaries.

Included in cash and bank balances of the Group and the Company are interest-bearing balances amounting to RM6,881,575,000 (2016: RM7,033,320,000) and RM1,349,000,000 (2016: RM2,006,000,000) respectively.

18. CASH AND CASH EQUIVALENTS (CONTINUED)

Included in cash and bank balances of the Group are amounts of RM157,469,000 (2016: RM144,407,000) held pursuant to the requirement of the Housing Development (Control and Licensing) Regulations 2002 and are therefore restricted from use in other operations.

Included in deposits placed with banks of the Group is an amount of RM475,923,000 (2016: RM320,498,000) being deposits held under designated accounts for redemption of Islamic Financing Facilities.

Included in deposits placed with banks of the Group is an amount of RM43,733,000 (2016: RM84,282,000) which are restricted for certain payments under the requirements of the borrowing facilities agreement.

Included in cash and bank balances of the Group is the retention account of RM104,732,000 (2016: RM145,639,000) which is restricted for use because it is pledged to the bank for the purpose of acquisition of vessels.

19. SHARE CAPITAL

		Company
In RM Mil	**2017**	**2016**
Issued and fully paid:		
100,000 ordinary shares of RM1,000 each	**100**	100

20. RESERVES

The Company has sufficient retained earnings to distribute the followings dividends:

i. Dividends paid out of income derived from petroleum operations which are not chargeable to tax pursuant to the Petroleum (Income Tax) Act 1967.

ii. Single tier dividends paid out of income derived from other operations other than petroleum which are exempt in the hands of shareholder pursuant to Paragraph 12B, Schedule 6 of the Income Tax Act, 1967.

iii. Exempt dividends paid out of income which are exempt pursuant to Section 12 of Income Tax (Amendment) Act, 1999, Paragraph 28, Schedule 6 and Schedule 7A of the Income Tax Act, 1967.

Capital Reserves

Capital reserves represent primarily reserves created upon issuance of bonus shares and redemption of preference shares by subsidiaries and the Group's share of its associate companies' reserves.

Foreign Currency Translation Reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of subsidiaries whose functional currencies are different from that of the Company's functional currency as well as foreign currency differences arising from the translation of monetary items that are considered to form part of a net investment in a foreign operation.

Available-for-sale Reserve

This reserve records the changes in fair value of available-for-sale investments. On disposal or impairment, the cumulative changes in fair value are transferred to the profit or loss.

General Reserve

General reserve represents appropriation of retained profits for general purposes rather than for a specific item of future loss or expense. In effect, it is a reserve for unspecified possible events.

21. NON-CONTROLLING INTERESTS

This consists of the non-controlling interests' proportion of share capital and reserves of partly-owned subsidiaries.

22. BORROWINGS

		Group		Company
In RM Mil	2017	2016	2017	2016
Non-current				
Secured				
Term loans	**3,199**	2,551	**-**	-
Islamic financing facilities	**1,444**	688	**-**	-
Total non-current secured borrowings	**4,643**	3,239	**-**	-
Unsecured				
Term loans	**6,585**	7,452	**-**	-
Notes and Bonds	**33,297**	36,755	**33,297**	36,755
Islamic financing facilities	**9,226**	10,213	**5,063**	5,612
Total non-current unsecured borrowings	**49,108**	54,420	**38,360**	42,367
Total non-current borrowings	**53,751**	57,659	**38,360**	42,367
Current				
Secured				
Term loans	**1,057**	263	**-**	-
Islamic financing facilities	**696**	308	**-**	-
Total current secured borrowings	**1,753**	571	**-**	-
Unsecured				
Term loans	**6,141**	5,440	**-**	-
Islamic financing facilities	**354**	447	**-**	-
Revolving credits	**2,129**	3,345	**-**	-
Bank overdrafts	**21**	151	**-**	-
Total current unsecured borrowings	**8,645**	9,383	**-**	-
Total current borrowings	**10,398**	9,954	**-**	-
Total borrowings	**64,149**	67,613	**38,360**	42,367

22. BORROWINGS (CONTINUED)

Terms and debt repayment schedule

Group *In RM Mil*	**Total**	**Under 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Secured					
Term loans	4,256	1,057	327	1,253	1,619
Islamic financing facilities	2,140	696	55	338	1,051
	6,396	1,753	382	1,591	2,670
Unsecured					
Term loans	12,726	6,141	807	5,416	362
Notes and Bonds	33,297	-	12,155	7,087	14,055
Islamic financing facilities	9,580	354	519	6,787	1,920
Revolving credits	2,129	2,129	-	-	-
Bank overdrafts	21	21	-	-	-
	57,753	8,645	13,481	19,290	16,337
	64,149	10,398	13,863	20,881	19,007

Company					
Unsecured					
Notes and Bonds	33,297	-	12,155	7,087	14,055
Islamic financing facilities	5,063	-	-	5,063	-
	38,360	-	12,155	12,150	14,055

Islamic financing facilities

Details of Islamic financing facilities are included in note 23.

Unsecured term loans

The unsecured term loans obtained by the subsidiaries primarily comprise:

In Mil	**2017**	**2016**
USD Term loans	**US$5,042**	US$4,076
EURO Term loans	**€440**	€441

These unsecured term loans bear interest at rates ranging from 1.26% to 6.50% (2016: 0.57% to 3.17%) per annum and are fully repayable at their various due dates from 2018 to 2028.

22. BORROWINGS (CONTINUED)

Unsecured Notes and Bonds

The unsecured Notes and Bonds comprise:

In Mil	2017	2016
USD Notes and Bonds:		
5 1/4% Guaranteed Notes due 2019^	**US$3,000**	US$3,000
7 7/8% Notes due 2022^	**US$1,000**	US$1,000
3 1/8% Guaranteed Notes due 2022^	**US$750**	US$750
3 1/2% Guaranteed Notes due 2025^	**US$1,500**	US$1,500
7 5/8% Bonds due 2026#	**US$500**	US$500
4 1/2% Guaranteed Notes due 2045^	**US$1,500**	US$1,500

\# Obtained by the Company.
^ Obtained by the Company via a subsidiary.

Secured term loans

The secured term loans obtained by the subsidiaries primarily comprise:

In Mil	Securities	2017	2016
USD Term loans	Secured by way of a charge over certain vessels and property, plant and equipment, together with charter agreements and insurance of the relevant assets of certain subsidiaries.	**US$1,134**	US$729
RM Term loans	Secured by way of a charge over certain property, plant and equipment and investment properties and insurance of the relevant property, plant and equipment of certain subsidiaries.	**RM478**	RM771

The secured term loans bear interest at rates ranging from 2.70% to 4.53% (2016: 1.99% to 4.42%) per annum and are fully repayable at their various due dates from 2018 to 2029.

Unsecured revolving credits and bank overdrafts

The unsecured revolving credits and bank overdrafts are obtained by the subsidiaries and primarily bear interest at rates ranging from 1.00% to 5.00% (2016: 1.00% to 3.57%) per annum.

In connection with the long term borrowing facility agreements, the Group and the Company have agreed on the following significant covenants with the bondholders:

i. not to allow any material indebtedness (the minimum aggregate amount exceeding US$30,000,000 or its equivalent in any other currency) for borrowed money of the Company to become due or capable of being declared due before its stated maturity, any guarantee of the Company for material indebtedness of any other person is not discharged at maturity or when validly called or the Company goes into default;

ii. the Company (not including any of its subsidiaries) not to create, incur or have outstanding any mortgage, pledge, lien, charge, encumbrance or any other lien upon the whole or any part of its property or assets, present or future indebtedness of itself or any other person, unless the aggregate outstanding principal amount of all such secured indebtedness (other than indebtedness secured by the liens already in existence) plus attributable debt of the Company in respect of sales and leaseback transactions would not exceed 10% of the consolidated net tangible assets;

22. BORROWINGS (CONTINUED)

Unsecured revolving credits and bank overdrafts (continued)

iii. the Company (not including any of its subsidiaries) not to enter into any sale and leaseback transaction, unless the attributable debt in respect of such sale and leaseback transaction and all other sale and leaseback transaction plus the aggregate outstanding principal amount of indebtedness for borrowed money secured by security interests (other than permitted security interests) then outstanding which have not equally and rateably secured the total outstanding would not exceed 10% of the Company's consolidated net tangible assets provided that, within 12 months after such sale and leaseback transaction, it applies to the retirement of indebtedness for borrowed money the repayment obligations hereunder and which are not secured by any security interest, an amount to the greater of:

- the net proceeds of the sale or transfer of the property or other assets which are the subject of such sale and leaseback transaction as determined by the Company; or

- the fair market value of the property or other assets so leased as determined by the Company;

iv. neither the Company nor PETRONAS Capital Limited ("PCL"), without consent of a majority bondholders may consolidate with, or merge into, or sell, transfer, lease or convey substantially all of its assets to any corporation unless any successor corporation expressly assumes the obligations of the Company or PCL, as the case may be under the Notes and Bond.

23. ISLAMIC FINANCING FACILITIES

Secured Islamic Financing Facilities

The secured Islamic financing facilities obtained by the subsidiaries comprise:

In RM Mil	**2017**	**2016**
Al Bai'bithaman Ajil Facilities	**300**	300
Bai' Al-Dayn Note Issuance Facilities	**206**	106
Murabahah Medium Term Notes	**3,710**	2,495

The secured Islamic financing facilities bear a yield payable ranging from 4.37% to 7.25% (2016: 3.70% to 7.25%) per annum and are fully repayable at their various due dates from 2018 to 2024.

The Islamic financing facilities are secured by way of a charge over certain property, plant and equipment and investment properties.

Unsecured Islamic Financing Facilities

The unsecured Islamic financing facilities obtained by the subsidiaries comprise:

In Mil	**2017**	**2016**
Murabahah Note Issuance Facilities	**RM17**	RM21
Murabahah Note Issuance Facilities	**CNY216**	CNY216
Sukuk Musyarakah	**RM3,982**	RM4,522
Bai' Al-Dayn Note Issuance Facilities	**RM81**	RM122
Trust Certificates^	**US$1,250**	US$1,250

^ Obtained by the Company via a subsidiary.

The unsecured Islamic financing facilities bear a yield payable ranging from 2.71% to 6.17% (2016: 2.71% to 5.10%) per annum and are fully repayable at their various due dates from 2018 to 2026.

24. OTHER LONG TERM LIABILITIES AND PROVISIONS

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Provision for decommissioning of:				
- oil and gas properties	**18,503**	20,950	**12,299**	14,531
- other property, plant and equipment	**432**	541	**-**	-
Financial guarantees	**-**	-	**15**	51
Derivative liabilities (note 13)	**-**	8	**-**	-
Others	**18,450**	16,419	**1,715**	2,366
	37,385	37,918	**14,029**	16,948

Provision for decommissioning of oil and gas properties and other property, plant and equipment is recognised when there is an obligation to decommission and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reasonable estimate of that liability can be made.

The provision recognised is the present value of the estimated future costs determined in accordance with local conditions and requirements net off, in the case of oil and gas properties, amounts received and estimated future funds receivable from contractors pursuant to the terms of the various production sharing contracts that the Company has entered into.

A corresponding asset of an amount equivalent to the provision is also created. This asset is depreciated in accordance with the policy set out in note 2.4. The increase in the present value of the provision for the expected costs due to the passage of time is included within finance costs.

The estimated decommissioning cost is uncertain as it relates to abandonment activities which will be undertaken in the future and subjected to the volatility of various factors including laws and regulations, technology, economy and political climate. To manage these changes and its impact on the carrying value of the provisions, regular reviews are performed by the Company on the principle assumptions applied for the calculation including the decommissioning costs, discount and inflation rates used in discounting the cash flows as well as changes to the fiscal terms of the production sharing contracts. The interest rate and inflation rate used to determine the obligation as at 31 December 2017 was 4.15% (2016 : 4.50%) per annum and 2.70% (2016 : 3.20%) per annum respectively. Changes in the expected future costs are reflected in both the provision and the asset.

The movement of provision for decommissioning during the financial year are as follows:

In RM Mil	**Group**	**Company**
At 1 January 2017	**21,491**	**14,531**
Net changes in provision	**(3,262)**	**(2,835)**
Provision utilised	**(178)**	**-**
Unwinding of discount	**884**	**603**
At 31 December 2017	**18,935**	**12,299**

Net changes in provision include foreign exchange gains or losses arising from retranslation of the provision and are adjusted against the carrying amount of the corresponding asset accordingly.

24. OTHER LONG TERM LIABILITIES AND PROVISIONS (CONTINUED)

During the year, the Company revised its estimated future costs of decommissioning of oil and gas properties resulting from changes in estimated cash flows. The revision was accounted for prospectively as a change in accounting estimates resulting in the following:

i. decrease in other long term liabilities and provisions by RM2,835,000,000 comprising decrease of RM4,100,000,000 mainly due to change in fiscal terms and increase of RM1,265,000,000 due to increase in future costs of decommissioning of oil and gas properties;
ii. increase in cost of property, plant and equipment by RM865,000,000; and
iii. increase in net profits by RM3,700,000,000.

25. TRADE AND OTHER PAYABLES

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Trade payables	**14,459**	20,388	**1,234**	783
Other payables	**36,600**	39,110	**10,649**	22,953
Amount due to:				
- subsidiaries	**-**	-	**7,977**	6,490
- associates and joint ventures	**1,748**	2,143	**13**	26
Derivative liabilities (note 13)	**484**	804	**21**	3
	53,291	62,445	**19,894**	30,255

Included in other payables of the Group are security deposits of RM105,862,000 (2016: RM127,572,000) mainly held in respect of tenancies of a shopping centre and office buildings. These deposits are refundable upon termination of the respective lease agreements.

Also included in trade payables of the Group are retention sums on construction contracts amounting to RM177,072,000 (2016: RM120,804,000).

Amount due to subsidiaries, associates and joint ventures arose in the normal course of business.

26. GROSS PROFIT

In RM Mil	Group 2017	Group 2016 Restated	Company 2017	Company 2016
Revenue				
- sales of oil and gas	**205,180**	176,245	**75,950**	62,308
- others	**846**	1,116	**2,072**	1,315
	206,026	177,361	**78,022**	63,623
- rendering of services	**3,510**	3,539	**1,678**	909
- shipping and shipping related services	**7,181**	6,904	**-**	-
- sale and rental of properties	**3,109**	3,261	**-**	-
	13,800	13,704	**1,678**	909
- dividend income				
Quoted				
- subsidiaries	**-**	-	**3,785**	2,990
- associates	**-**	-	**27**	32
- investments	**145**	122	**1**	1
Unquoted				
- subsidiaries	**-**	-	**12,461**	11,178
- investments	**61**	51	**61**	51
- joint ventures	**-**	-	**42**	94
	206	173	**16,377**	14,346
- interest income	**3,590**	3,823	**2,098**	2,689
	223,622	195,061	**98,175**	81,567
Cost of revenue				
- cost of sales	**(129,136)**	(126,202)	**(57,103)**	(51,313)
- cost of services	**(11,058)**	(10,895)	**-**	-
	(140,194)	(137,097)	**(57,103)**	(51,313)
Gross profit	**83,428**	57,964	**41,072**	30,254

27. OPERATING PROFIT

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Included in operating profit are the following charges:				
Audit fees	**38**	38	**2**	2
Amortisation of:				
- intangible assets	**2,581**	2,504	**-**	-
- prepaid lease payments	**52**	39	**-**	-
Bad debts written off:				
- trade and other receivables	**26**	304	**-**	-
Contribution to Tabung Amanah Negara	**100**	200	**100**	200
Depreciation of property, plant and equipment and investment properties	**27,892**	22,766	**1,456**	940
Net impairment losses on:				
- property, plant and equipment	**-**	8,775	**-**	2,100
- intangible assets	**1,745**	2,692	**-**	-
- trade and other receivables	**295**	1,731	**198**	99
- loan and advances to an associate	**88**	79	**-**	-
- investments in subsidiaries	**-**	-	**-**	87
- other investments	**8**	-	**-**	-
Net impairment/write-off on well costs	**703**	6,129	**-**	-
Inventories written down to net realisable value	**135**	28	**-**	-
Loss on disposal of:				
- other investments	**5**	-	**-**	-
- property, plant and equipment	**28**	47	**-**	-
- intangible assets	**-**	457	**-**	-
- investments in associates and joint ventures	**-**	24	**-**	-
- investments in subsidiaries	**-**	417	**-**	22
Operating lease rental	**1,705**	1,987	**1,916**	957
Property, plant and equipment written off	**375**	1,361	**-**	-
Rental of:				
- plant, machinery, equipment and motor vehicles	**1,054**	747	**53**	45
- land and buildings	**625**	689	**127**	168
Research and development expenditure	**85**	83	**2**	12
Staff costs:				
- wages, salaries and others	**8,544**	8,401	**1,587**	1,310
- contributions to Employee's Provident Fund	**932**	888	**230**	207
Net loss on foreign exchange	**4,020**	-	**8,957**	-

27. OPERATING PROFIT (CONTINUED)

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
and credits:				
Gain on bargain purchase	**-**	33	**-**	-
Gain on disposal/partial disposal of:				
- other investments	**251**	32	**35**	22
- property, plant and equipment	**96**	34	**-**	22
- associates and joint ventures	**63**	10	**-**	-
- subsidiaries	**440**	107	**897**	528
Interest income - others	**799**	519	**4,836**	5,904
Reversal of inventories written down to net realisable value	**-**	6	**-**	-
Rental income on land and buildings	**496**	252	**432**	518
Net write-back of impairment losses on:				
- property, plant and equipment	**347**	-	**1,789**	-
- investments in associates and joint ventures	**601**	411	**-**	-
- investments in subsidiaries	**-**	-	**-**	381
- amount due from subsidiaries	**-**	-	**-**	102
- other investment	**-**	10	**-**	-
Net gain on foreign exchange	**-**	3,682	**-**	3,892

28. TAX EXPENSE

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Current tax expenses				
Malaysia				
Current year	**18,139**	11,482	**7,903**	3,966
Prior year	**344**	349	**78**	413
Overseas				
Current year	**1,558**	1,102	**-**	-
Prior year	**38**	496	**-**	-
Total current tax expenses	**20,079**	13,429	**7,981**	4,379
Deferred tax expenses				
Origination and reversal of temporary differences	**(20)**	(2,782)	**247**	51
(Over)/under provision in prior year	**(925)**	(499)	**711**	61
Total deferred tax expenses	**(945)**	(3,281)	**958**	112
Total tax expenses	**19,134**	10,148	**8,939**	4,491

28. TAX EXPENSE (CONTINUED)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

In RM Mil	%	2017	%	2016 Restated
Group				
Profit before taxation		**64,652**		33,910
Taxation at Malaysian statutory tax rate	**24**	**15,516**	24	8,138
Effect of different tax rates in foreign jurisdictions	**-**	**83**	1	465
Effect of different tax rates between corporate income tax and petroleum income tax	**7**	**4,421**	6	2,009
Effect of changes in tax rates	**-**	**59**	-	1
Non deductible expenses, net of non assessable income	**3**	**2,078**	1	269
Tax exempt income	**(3)**	**(1,768)**	(5)	(1,591)
Tax incentives	**(2)**	**(1,119)**	(5)	(1,649)
Effect of net deferred tax benefits not recognised	**1**	**415**	6	2,054
Foreign exchange translation difference	**-**	**(8)**	-	106
	30	**19,677**	28	9,802
(Over)/under provision in prior years		**(543)**		346
Tax expense		**19,134**		10,148
Company				
Profit before taxation		**35,111**		34,681
Taxation at Malaysian statutory tax rate	**24**	**8,427**	24	8,323
Effect of different tax rates between corporate income tax and petroleum income tax	**10**	**3,443**	3	1,184
Net of non deductible expenses/(non assessable income)	**1**	**194**	(6)	(2,047)
Tax exempt income	**(11)**	**(3,914)**	(10)	(3,443)
	24	**8,150**	11	4,017
Under provision in prior years		**789**		474
Tax expense		**8,939**		4,491

29. DIVIDENDS

In RM Mil	2017	Company 2016
Ordinary:		
Final:		
Tax exempt dividend of RM130,000 (2016: RM160,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial year 31 December 2016 (2016: 31 December 2015)	**13,000**	16,000
Interim:		
Tax exempt dividend of RM30,000 (2016: nil) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial year 31 December 2017	**3,000**	-
	16,000	16,000

29. DIVIDENDS (CONTINUED)

In RM Mil	Company 2017	2016
Proposed:		
Final:		
Tax exempt dividend of RM160,000 (2016: RM130,000) per ordinary share under Section 84 of the Petroleum (Income Tax) Act, 1967 in respect of financial year 31 December 2017 (2016: 31 December 2016)	**16,000**	13,000

The proposed tax exempt final dividend under Section 84 of the Petroleum (Income Tax) Act, 1967 of RM160,000 per ordinary share amounting to RM16 billion in respect of the financial year ended 31 December 2017, has not been accounted for in the financial statements.

30. NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES

The cash (used in)/generated from investing activities comprise:

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Acquisition of:				
- a subsidiary, net of cash acquired	**-**	(201)	**-**	-
- additional shares in subsidiaries	**-**	-	**(46,884)**	(4,842)
Dividends received	**1,238**	1,107	**16,377**	14,346
Investment in:				
- associates, joint ventures and unquoted companies	**(503)**	(952)	**-**	-
- securities and other investments	**(2,512)**	(778)	**(167)**	(332)
Long term receivables and advances (to)/repaid from:				
- subsidiaries	**-**	-	**32,868**	(11,161)
- associates and joint ventures	**(384)**	(37)	**-**	-
Proceeds from disposal/partial disposal of:				
- investment in subsidiaries, net of cash disposed (note 32)	**561**	363	**1,302**	907
- investment in associates and a joint venture	**203**	4	**-**	-
- property, plant and equipment, investment properties, prepaid lease payments, intangible assets and assets classified as held for sale	**350**	1,149	**-**	72
- securities and other investments	**2,767**	8,659	**3,252**	6,739
Proceeds from capital reduction in an associate and joint ventures	**12**	171	**-**	150
Purchase of property, plant and equipment, investment properties, prepaid lease payments, intangible assets and land held for development	**(44,499)**	(50,365)	**(967)**	(1,356)
Proceeds from government grant	**204**	-	**-**	-
Redemption of preference shares in subsidiaries	**-**	-	**5,321**	179
	(42,563)	(40,880)	**11,102**	4,702

31. NET CASH USED IN FINANCING ACTIVITIES

The cash used in financing activities comprise:

	Group		Company	
In RM Mil	**2017**	**2016**	**2017**	**2016**
Dividends paid	**(16,000)**	(16,000)	**(16,000)**	(16,000)
Dividends paid to non-controlling interests	**(6,770)**	(5,856)	**-**	-
Drawdown of:				
- Islamic financing facilities	**1,325**	1,212	**-**	-
- term loans	**4,606**	8,204	**-**	-
- revolving credits	**1,085**	3,364	**-**	-
Repayment of:				
- Islamic financing facilities	**(711)**	(763)	**-**	-
- term loans	**(2,100)**	(3,832)	**-**	-
- revolving credits	**(2,159)**	(1,617)	**-**	-
Payment to non-controlling interests on redemption of redeemable preference shares	**-**	(11)	**-**	-
Proceeds from partial disposal of equity interests to non-controlling interest	**1,420**	879	**-**	-
Proceeds from shares issued to non-controlling interests	**56**	30	**-**	-
	(19,248)	(14,390)	**(16,000)**	(16,000)

Reconciliation of movement of liabilities to cash flows arising from financing activities:

2017	Group		Company	
In RM Mil	**Borrowings**	**Dividends**	**Borrowings**	**Dividends**
Balance at 1 January 2017	**67,613**	**-**	**42,367**	**-**
Changes from financing cash flows				
Drawdown/(Repayment) of:				
Term loan	**1,711**	**-**	**-**	**-**
Islamic financing facilities	**614**	**-**	**-**	**-**
Revolving credits	**(1,074)**	**-**	**-**	**-**
Bank overdraft	**(21)**	**-**	**-**	**-**
Dividend paid	**-**	**(16,000)**	**-**	**(16,000)**
Total changes from financing cash flows	**1,230**	**(16,000)**	**-**	**(16,000)**
Changes arising from obtaining or losing control of subsidiaries or other business				
Term loan	**795**	**-**	**-**	**-**
Bank overdraft	**(81)**	**-**	**-**	**-**
	714	**-**	**-**	**-**

31. NET CASH USED IN FINANCING ACTIVITIES (CONTINUED)

Reconciliation of movement of liabilities to cash flows arising from financing activities: (continued)

2017		**Group**		**Company**
In RM Mil	**Borrowings**	**Dividends**	**Borrowings**	**Dividends**
The effect of changes in foreign exchange rates				
Islamic financing facilities	**(555)**	**-**	**(552)**	**-**
Term loan	**(1,232)**	**-**	**-**	**-**
Revolving credits	**(141)**	**-**	**-**	**-**
Bank overdraft	**(28)**	**-**	**-**	**-**
Notes and bonds	**(3,486)**	**-**	**(3,485)**	**-**
	(5,442)	**-**	**(4,037)**	**-**
Other changes				
Dividend declared	**-**	**16,000**	**-**	**16,000**
Finance costs	**-**	**-**	**30**	**-**
Interest expense	**34**	**-**	**-**	**-**
Total liabilitiy related other changes	**34**	**16,000**	**30**	**16,000**
Balance at 31 December 2017	**64,149**	**-**	**38,360**	**-**

32. DISPOSAL OF SUBSIDIARIES

During the financial year, the Group via its subsidiary, PETRONAS Dagangan Berhad ("PDB") has disposed 100% of its equity interest in Thang Long LPG Company Limited ("TLLCL") and PETRONAS Energy Philippines, Inc. ("PEPI") for a total consideration of RM579 million.

The Group also disposed several subsidiaries for a total consideration of RM9 million. The net profit contributed by these subsidiaries from 1 January 2017 to the date of disposal is not material in relation to the consolidated net profit of the Group for the period.

The net effect of the above disposals of subsidiaries on the cash flows and carrying amount of net assets and liabilities disposed are as follows:

In RM Mil	**Carrying amount representing fair value at disposal date**
Property, plant and equipment	101
Other assets	80
Other liabilities	(33)
	148
Add: Net gain on disposal of subsidiaries	440
Proceeds from disposal of subsidiaries	588
Less: Cash and cash equivalents of subsidiaries disposed	(27)
Cash flow on disposal of subsidiaries, net of cash disposed (note 30)	561

33. SIGNIFICANT EVENT

Pacific NorthWest LNG ("PNWLNG") negative Final Investment Decision ("FID")

During the year, the partners of the PNWLNG Project had voted for negative FID and also resolved for the winding-down of business activities of PNWLNG. Following the negative FID, the Group through its subsidiary, Progress Energy Canada Ltd. ("PECL"), has written off its assets relating to cost incurred for access rights to Lelu Island amounting to CAD9 million (equivalent to RM30 million) and the Prince Rupert Gas Transmission ("PRGT") contract had been terminated. On October 2017, PECL had settled the said termination amounted to approximately CAD604 million (equivalent to RM2,001 million) to TransCanada Corporation, consisting of PECL's share of CAD374 million (equivalent of RM1,241 million) and the North Montney Joint Venture partners' share of CAD229 million (equivalent of RM760 million). The expense has been recognised in the profit or loss accordingly.

34. OPERATING LEASES

Leases as lessor

The Group via its subsidiary has entered into non-cancellable operating lease agreements for Government Office Buildings ("GOB") in accordance with the Concession Agreement ("CA") with the Government of Malaysia. Under the CA, the Group will construct various parcels of GOB on land belonging to the Government. Upon completion of each parcel, the Government will execute a 25-year lease agreement over the land of the said parcel to the Group. Simultaneously, the Group will sub-lease over the same land and buildings to the Government for the same period in return for lease rentals based on predetermined rates per square foot per month.

These leases have remaining period of non-cancellable lease terms between 10 and 25 years.

The future minimum lease receivable under non-cancellable operating leases contracted for as at the reporting date but not recognised as receivables are as follows:

		Group
In RM Mil	**2017**	**2016**
Less than one year	**3,112**	2,863
Between one and five years	**9,630**	11,482
More than five years	**15,655**	16,566
	28,397	30,911

Leases as lessee

Total future minimum lease payments under non-cancellable operating leases are as follows:

		Group		**Company**
In RM Mil	**2017**	**2016**	**2017**	**2016**
Less than one year	**1,166**	1,595	**1,881**	496
Between one and five years	**2,304**	3,495	**7,376**	2,026
More than five years	**2,243**	2,450	**7,693**	2,816
	5,713	7,540	**16,950**	5,338

35. COMMITMENTS

Outstanding commitments in respect of capital expenditure at the end of the reporting year not provided for in the financial statements are:

		Group		Company
In RM Mil	**2017**	**2016**	**2017**	**2016**
Property, plant and equipment				
Approved and contracted for				
Less than one year	**27,000**	36,590	**606**	596
Between one and five years	**18,821**	18,710	**1,155**	1,095
	45,821	55,300	**1,761**	1,691
Approved but not contracted for				
Less than one year	**23,437**	18,144	**-**	5
Between one and five years	**61,508**	66,023	**46**	-
	84,945	84,167	**46**	5
	130,766	139,467	**1,807**	1,696
Share of capital expenditure of joint venture				
Approved and contracted for				
Less than one year	**5,432**	9,378	**-**	-
Between one and five years	**1,616**	7,965	**-**	-
More than five years	**420**	3,926	**-**	-
	7,468	21,269	**-**	-
Approved but not contracted for				
Less than one year	**5,499**	5,542	**-**	-
Between one and five years	**30,909**	41,768	**-**	-
More than five years	**-**	388	**-**	-
	36,408	47,698	**-**	-
	43,876	68,967	**-**	-
Total commitments	**174,642**	208,434	**1,807**	1,696

36. CONTINGENT LIABILITIES

		Group		Company
In RM Mil	**2017**	**2016**	**2017**	**2016**
Unsecured				
Guarantees extended to third parties	**199**	425	**-**	-
Contingent payments	**107**	149	**-**	-
	306	574	**-**	-

36. CONTINGENT LIABILITIES (CONTINUED)

Material litigation

The legal suit brought against the Company by the Kelantan State Government in 2010 in respect of payment of petroleum proceeds under the terms of the agreement dated 9 May 1975 entered into between the Kelantan State Government and PETRONAS is still on-going as at the reporting date. PETRONAS has been advised by its solicitors that PETRONAS has a meritorious defence to the claim. The Company cannot estimate with sufficient reliability the ultimate financial obligation, if any, of this legal suit, since it has not gone for full trial yet.

Other guarantees

Other than those disclosed elsewhere in the financial statements, the Group and the Company had entered into agreements which may include agreements to provide guarantees to third parties for the benefit of subsidiaries, associates and joint ventures ("Guaranteed Entities"). Such unsecured guarantees are normally provided in support of the Guaranteed Entities' normal and on-going business requirements, consistent with generally acceptable and recognised industry practices. The liability of the Group and the Company is therefore contingent and would only trigger upon the default of the Guaranteed Entities' obligation under the guarantee.

37. RELATED PARTY DISCLOSURES

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly and an entity that provides key management personnel services to the Group. The key management personnel comprises all the Directors of the Company.

The Company's related parties include key management personnel, subsidiaries, associates, joint ventures as well as the Government of Malaysia and its related entities as the Company is wholly-owned by the Government of Malaysia.

Key management personnel compensation

	Group and Company	
In RM Mil	**2017**	**2016**
Directors fees, emoluments and remuneration	**21**	17

The estimated monetary value of Directors' benefits-in-kind is RM104,000 (2016: RM86,000).

37. RELATED PARTY DISCLOSURES (CONTINUED)

Significant transactions with related parties

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

Group *In RM Mil*	**2017**	**2016**
Federal and State Governments of Malaysia:		
Petroleum proceeds	**(9,566)**	(7,310)
Lease income receivable	**1,387**	1,360
Sales of petroleum products	**296**	268
Government of Malaysia's related entities:		
Sales of petroleum products, processed gas and utilities	**8,011**	7,544
Associate companies:		
Sales of petrochemical products, processed gas and utilities	**6,845**	5,053
Purchase of petrochemical products, processed gas and utilities	**-**	(1)
Gas processing fee payable	**(19)**	(24)
Lease and rental expenses	**-**	(273)
Other income	**14**	149
Joint ventures:		
Sales of petrochemical products, processed gas, petroleum products and general merchandise	**33**	35
Interest receivable from joint ventures	**82**	79
Gas processing fee payable	**(28)**	(144)
Other expenses	**(182)**	(198)
Other income	**5**	7

37. RELATED PARTY DISCLOSURES (CONTINUED)

Company *In RM Mil*	**2017**	**2016**
Federal and State Governments of Malaysia:		
Petroleum proceeds	**(9,566)**	(7,310)
Government of Malaysia's related entities:		
Sales of processed gas	**3,185**	4,156
Subsidiaries:		
Sales of crude oil, petroleum products, processed gas and natural gas	**45,583**	35,798
Interest receivable from subsidiaries	**4,496**	5,460
Purchase of crude oil, natural gas and liquefied natural gas	**(29,188)**	(23,486)
Gas processing and transportation fee payable	**(4,477)**	(4,430)
LNG cancellation fee	**(378)**	-
Charter hire fee	**(1,240)**	(179)
Centralised head office services charges	**945**	-
Research cess	**148**	54
Supplemental payments and signature bonus	**753**	135
Contribution to fund	**(237)**	(402)
Abandonment cess fund	**(16,700)**	-
Associate companies:		
Sales of processed gas	**4,925**	3,610
Gas processing fee payable	**(19)**	(24)
Joint ventures:		
Gas processing fee payable	**(28)**	(144)

Information regarding outstanding balances arising from related party transactions as at 31 December 2017 are disclosed in note 11, note 16 and note 25.

Information regarding impairment losses on receivables and bad debts written off during the financial year are disclosed in note 27.

The Directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business and have been established on a commercial basis.

38. OPERATING SEGMENTS, PRODUCTS AND SERVICES AND GEOGRAPHICAL INFORMATION

The Group has two reportable operating segments comprising Upstream and Downstream. Each reportable segment offers different products and services and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the Group's reportable segments:

- Upstream - activities include oil and natural gas exploration, development and production, together with related pipeline and transportation activities as well as purchase and liquefaction of natural gas and marketing and trading of liquefied natural gas ("LNG") and sales gas.

- Downstream - activities include the supply and trading, refining, manufacturing, marketing and transportation of crude oil, petroleum and petrochemical products as well as gas processing operations and power business.

Corporate and Others comprises primarily logistic and maritime segment, property segment, central treasury and Project Delivery & Technology (PD&T) function.

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

There are varying levels of integration between Upstream segment, Downstream segment and others. This integration includes transfers of products and services between segments. Inter-segment pricing is established on a commercial basis.

Inter-segment revenues includes sales of crude oil and condensates, petroleum products, sales gas and shipping services between business segments. These transactions are eliminated on consolidation.

Performance is measured based on segment profit after tax ("PAT"), as included in the internal management reports. Segment PAT is used to measure performance as the Executive Leadership Team believes that such information is the most relevant in evaluating the results of the segments.

Segment assets are measured based on total assets (including goodwill) of a segment, as included in the internal management reports and are used to measure the return of assets of each segment.

Segment liabilities information is neither included in the internal management reports nor provided regularly to the Executive Leadership Team. Hence, no disclosure is made on segment liability.

Segment capital expenditure is the total cost incurred during the financial year to acquire non-current assets other than financial instruments and deferred tax assets.

38. OPERATING SEGMENTS, PRODUCTS AND SERVICES AND GEOGRAPHICAL INFORMATION (CONTINUED)

Group 2017 *In RM Mil*	**Upstream**	**Downstream**	**Corporate and Others**	**Consolidation adjustments and eliminations**	**Total**
Revenue					
Third parties	99,904	108,984	14,734	-	223,622
Inter-segment	35,180	4,744	4,318	(44,242)	-
Total revenue	135,084	113,728	19,052	(44,242)	223,622
Reportable segment profit	33,074	11,340	1,089	[a] 15	45,518
Included in the measure of segment profit are:					
Depreciation and amortisation	(22,532)	(4,622)	(3,371)	-	(30,525)
Impairment losses and write-off on well costs	(951)	(118)	(822)	-	(1,891)
Interest income	529	834	3,106	(80)	4,389
Interest expense	(4,074)	(294)	(2,992)	3,666	(3,694)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	(422)	103	424	-	105
Tax expense	(15,532)	(2,589)	(527)	(486)	(19,134)
Segment assets	288,368	159,769	186,803	(35,090)	599,850
Included in the measure of segment assets are:					
Investments in associates and joint ventures	5,706	5,281	2,105	-	13,092
Additions to non-current assets other than financial instruments and deferred tax assets	16,314	24,420	4,326	-	45,060

a Comprise consolidation adjustments in relation to unrealised gains and losses on inventories, intercompany borrowing costs capitalised as part of the cost of a qualifying asset, and reclassification of foreign exchange gains and losses to other comprehensive income arising from intercompany receivables that are considered to form part of the net investment in foreign operations (note 2.20).

38. OPERATING SEGMENTS, PRODUCTS AND SERVICES AND GEOGRAPHICAL INFORMATION (CONTINUED)

Group 2016 Restated *In RM Mil*	**Upstream**	**Downstream**	**Corporate and Others**	**Consolidation adjustments and eliminations**	**Total**
Revenue					
Third parties	89,154	90,821	15,086	-	195,061
Inter-segment	23,987	4,416	4,420	(32,823)	-
Total revenue	113,141	95,237	19,506	(32,823)	195,061
Reportable segment profit	3,505	8,292	6,549	[a] 5,416	23,762
Included in the measure of segment profit are:					
Depreciation and amortisation	(18,208)	(3,902)	(3,199)	-	(25,309)
Impairment losses and write-off on well costs	(18,084)	(218)	(683)	-	(18,985)
Interest income	552	738	3,118	(66)	4,342
Interest expense	(4,386)	(213)	(2,287)	3,592	(3,294)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	334	164	367	-	865
Tax expense	(6,928)	(2,572)	(99)	(549)	(10,148)
Segment assets	295,840	142,188	200,068	(34,649)	603,447
Included in the measure of segment assets are:					
Investments in associates and joint ventures	4,775	5,606	3,649	-	14,030
Additions to non-current assets other than financial instruments and deferred tax assets	20,916	27,225	3,725	-	51,866

a Comprise consolidation adjustments in relation to unrealised gains and losses on inventories, intercompany borrowing costs capitalised as part of the cost of a qualifying asset, and reclassification of foreign exchange gains and losses to other comprehensive income arising from intercompany receivables that are considered to form part of the net investment in foreign operations (note 2.20).

38. OPERATING SEGMENTS, PRODUCTS AND SERVICES AND GEOGRAPHICAL INFORMATION (CONTINUED)

Products and services information

The following are revenue from external customers by products and services:

Group *In RM Mil*	**2017**	**2016** **Restated**
Petroleum products	**79,820**	67,267
Crude oil and condensates	**33,256**	31,943
Liquefied natural gas	**49,874**	39,473
Sales and natural gas	**24,592**	23,553
Petrochemicals	**17,638**	14,009
Shipping services	**7,181**	6,904
Investment income	**3,590**	3,823
Others	**7,671**	8,089
	223,622	195,061

Geographical information

Geographical revenue is determined based on location of customers. The amounts presented in non-current assets are based on the geographical location of the assets and do not include financial instruments (including investments in associates and joint ventures) nor deferred tax assets.

Group		**Revenue**
In RM Mil	**2017**	**2016** **Restated**
Asia	**69,672**	61,629
Malaysia	**64,633**	56,173
Japan	**27,750**	24,319
South Africa	**22,956**	17,530
Rest of the world	**38,611**	35,410
	223,622	195,061

Group	**Non-current assets**	
In RM Mil	**2017**	**2016**
Malaysia	**272,602**	269,635
Rest of the world	**91,393**	104,424
	363,995	374,059

Major customers

As at 31 December 2017 and 31 December 2016, there are no major customers with revenue that contribute to more than 10 percent of Group revenue.

39. PETROLEUM ARRANGEMENTS

The Petroleum Development Act, 1974 vests the entire ownership, rights, powers, liberties and privileges of exploiting petroleum resources on land and offshore Malaysia in PETRONAS.

The monetisation of petroleum resources is carried out primarily by means of production sharing contracts ("PSCs") between PETRONAS, its subsidiaries and other oil and gas companies ("PSC Contractors"). Under the terms of the various PSCs, the PSC Contractors shall bear all the costs and recover their costs in barrels of crude oil or gas equivalent in accordance with the terms of their respective PSCs.

Certain terms of the PSCs are:

i. Research cess, supplemental payments and crude oil or gas entitlement

The determination of research cess, supplemental payments, and PETRONAS' and the PSC Contractors' entitlements to crude oil or gas produced subsequent to 31 December 1992 have been based on the returns submitted by PSC Contractors and is dependent on agreement being reached on the method of valuation of crude oil or gas and the quantum of costs incurred and claimed by contractors subject to the maximum rate provided under the respective PSCs for the year. PETRONAS' entitlements to crude oil and natural gas are taken up as income on the basis of liftings and sales respectively made by the Company.

ii. Property, plant and equipment

Title to all equipment and other assets purchased or acquired by PSC Contractors exclusively for the purpose of petroleum operations, and which costs are recoverable in barrels of cost oil or gas equivalent, is vested with PETRONAS. However, the values of these assets are not taken up in the financial statements of PETRONAS other than:

- the property, plant and equipment of a subsidiary which is also a contractor to PETRONAS under certain PSCs; and
- the estimated costs of decommissioning and removing the assets and restoring the site on which they are located where there is an obligation to do so.

iii. Inventories

Title to all crude oil held in inventories by the PSC Contractors lies with PETRONAS and title to the contractors' entitlement passes only upon delivery at point of export.

The monetisation of petroleum resources is also carried out by means of risk service contracts ("RSCs"). Under the terms of the RSCs, RSC Contractors provide services for the development and production of oil and gas resources on behalf of PETRONAS.

Certain terms of the RSCs are:

i. Cost reimbursement and remuneration fees

RSC Contractors incur all upfront costs and will be reimbursed upon first commercial production. Under the terms of the RSCs, PETRONAS owns the title to all equipment and other assets purchased or acquired by the RSC Contractors for the purpose of petroleum operations. The values of these assets are taken up in the financial statements of PETRONAS upon incurrence, together with the estimated costs of decommissioning the assets where there is an obligation to do so.

Contractors are also entitled to remuneration fees which commensurate with their performance under the contract. All payments of remuneration fees are recognised as expenditures in PETRONAS' financial statements.

39. PETROLEUM ARRANGEMENTS (CONTINUED)

Certain terms of the RSCs are: (continued)

ii. Production

All barrels of crude oil and gas produced belongs to PETRONAS and inventories, if any, are taken up in the financial statements of PETRONAS.

Concession Agreement

Under the terms of Concession Agreements, the subsidiary of the Group participated in Consortium agreements for the rights to carry out exploration and exploitation activities. The Consortium bears all costs as outlined in the Annual Work Program and Budget. Title to all equipment and other assets purchased and acquired by the Consortium for the purpose of petroleum operations will remain with the Consortium for the duration of the Concession Agreement and the equity value of assets is recognised in the financial statements of the relevant subsidiary at the Group as property, plant and equipment as per accounting policies set out in note 2.4.

Upon production, the title to the crude oil produced to which the Consortium is entitled to, shall pass to the Consortium at the point of production at the wellhead. Each member of the Consortium shall own and may separately take or dispose of its own share of the crude oil.

The Consortium shall pay to the host authority a royalty on the Consortium's total production of the crude oil for each calendar month in-kind. By virtue of its petroleum operations, the Consortium is subject to direct tax on profits, where each member of the Consortium shall separately calculate its taxable income and shall remain responsible for its own corporate income tax return.

40. FINANCIAL INSTRUMENTS

Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

i. Loans and receivables ("L&R")
ii. Fair value through profit or loss ("FVTPL")
   - Designated upon initial recognition ("DUIR")
   - Held for trading ("HFT")
iii. Available-for-sale financial assets ("AFS")
iv. Loans and borrowings ("L&B")

40. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

Group 2017 *In RM Mil*	Note	L&R/(L&B)	FVTPL - DUIR	FVTPL - HFT	AFS	Total carrying amount
Financial assets						
Long term receivables	*	**13,646**	**-**	**30**	**-**	**13,676**
Fund and other investments	12	**-**	**1,552**	**-**	**6,746**	**8,298**
Trade and other receivables	*	**37,035**	**-**	**449**	**-**	**37,484**
Cash and cash equivalents	18	**128,209**	**-**	**-**	**-**	**128,209**
		178,890	**1,552**	**479**	**6,746**	**187,667**
Financial liabilities						
Borrowings	22	**(64,149)**	**-**	**-**	**-**	**(64,149)**
Other long term liabilities	*	**(1,744)**	**-**	**-**	**-**	**(1,744)**
Trade and other payables	*	**(45,146)**	**-**	**(484)**	**-**	**(45,630)**
		(111,039)	**-**	**(484)**	**-**	**(111,523)**
2016						
Financial assets						
Long term receivables	*	13,069	-	2	-	13,071
Fund and other investments	12	-	1,653	-	8,610	10,263
Trade and other receivables	*	38,737	-	304	-	39,041
Cash and cash equivalents	18	121,492	-	-	-	121,492
		173,298	1,653	306	8,610	183,867
Financial liabilities						
Borrowings	22	(67,613)	-	-	-	(67,613)
Other long term liabilities	*	(1,677)	-	(8)	-	(1,685)
Trade and other payables	*	(50,095)	-	(804)	-	(50,899)
		(119,385)	-	(812)	-	(120,197)

* These balances exclude non-financial instruments balances.

Certain fund and other investments have been designated upon initial recognition at fair value through profit or loss as management internally monitors these investments on fair value basis.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

Company 2017 *In RM Mil*	Note	L&R/(L&B)	FVTPL - DUIR	FVTPL - HFT	AFS	Total carrying amount
Financial assets						
Long term receivables	*	**116,964**	**-**	**-**	**-**	**116,964**
Fund and other investments	12	**-**	**774**	**-**	**682**	**1,456**
Trade and other receivables	*	**20,237**	**-**	**8**	**-**	**20,245**
Cash and cash equivalents	18	**65,564**	**-**	**-**	**-**	**65,564**
		202,765	**774**	**8**	**682**	**204,229**
Financial liabilities						
Borrowings	22	**(38,360)**	**-**	**-**	**-**	**(38,360)**
Other long term liabilities	*	**(1,744)**	**-**	**-**	**-**	**(1,744)**
Trade and other payables	*	**(19,854)**	**-**	**(21)**	**-**	**(19,875)**
		(59,958)	**-**	**(21)**	**-**	**(59,979)**
2016						
Financial assets						
Long term receivables	*	161,258	-	-	-	161,258
Fund and other investments	12	-	883	-	3,711	4,594
Trade and other receivables	*	17,997	-	13	-	18,010
Cash and cash equivalents	18	68,426	-	-	-	68,426
		247,681	883	13	3,711	252,288
Financial liabilities						
Borrowings	22	(42,367)	-	-	-	(42,367)
Other long term liabilities	*	(1,728)	-	-	-	(1,728)
Trade and other payables	*	(30,232)	-	(3)	-	(30,235)
		(74,327)	-	(3)	-	(74,330)

* These balances exclude non-financial instruments balances.

Certain fund and other investments have been designated upon initial recognition at fair value through profit or loss as management internally monitors these investments on fair value basis.

Financial risk management

As an integrated oil and gas company, the Group and the Company are exposed to various risks that are particular to its core business of upstream and downstream operations. These risks, which arise in the normal course of the Group's and of the Company's business, comprise credit risk, liquidity risk and market risk relating to interest rates, foreign currency exchange rates, equity prices and commodity prices.

The Group has policies and guidelines in place that sets the foundation for a consistent approach towards establishing an effective financial risk management across the PETRONAS Group.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

Risk taking activities are undertaken within acceptable level of risk or risk appetite, whereby the risk appetite level reflects business considerations and capacity to assume such risks. The risk appetite is established at Board level, where relevant, based on defined methodology and translated into operational thresholds.

The Group and the Company's goal in risk management are to ensure that the management understands, measures and monitors the various risks that arise in connection with their operations. Policies and guidelines have been developed to identify, analyse, appraise and monitor the dynamic risks facing the Group and the Company. Based on this assessment, each business unit adopts appropriate measures to mitigate these risks in accordance with the business unit's view of the balance between risk and reward.

Credit risk

Credit risk is the potential exposure of the Group and of the Company to losses in the event of non-performance by counterparties. The Group and the Company's exposures to credit risk arise principally from their receivables from customers, fund and other investments and financial guarantees given to financial institutions for credit facilities granted to subsidiaries, joint ventures and associates. Credit risks are controlled by individual operating units in line with PETRONAS' policies and guidelines.

Receivables

The Group and the Company minimise credit risk by ensuring that all potential counterparties are assessed prior to registration and entering into new contracts. Existing counterparties are also subject to regular reviews, including re-appraisal and approval of granted limits. The creditworthiness of counterparties is assessed based on an analysis of all available quantitative and qualitative data regarding business risks and financial standing, together with the review of any relevant third party and market information. Reports are prepared and presented to the management that cover the Group's overall credit exposure against limits and securities, exposure by segment and overall quality of the portfolio.

Depending on the types of transactions and counterparty creditworthiness, the Group and the Company further mitigate and limit risks related to credit by requiring collateral or other credit enhancements such as cash deposits, letter of credit and bank guarantees.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values.

Exposure to losses increases with concentrations of credit risk which may exist when a number of counterparties are involved in similar activities or operate in the same industry sector or geographical area, which may result in their ability to meet contractual obligations being impacted by changes in economic, political or other conditions. The Group's principal customers with which it conducts business are located globally and there is no significant concentration of credit risk at reporting date.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Receivables (continued)

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is equal to the carrying amount. The ageing of trade receivables net of impairment amount as at the end of the reporting period is analysed below:

		Group		**Company**
In RM Mil	**2017**	**2016**	**2017**	**2016**
At net				
Current	**22,101**	22,397	**4,589**	4,082
Past due 1 to 30 days	**1,004**	764	**191**	78
Past due 31 to 60 days	**451**	265	**99**	-
Past due 61 to 90 days	**95**	444	**2**	28
Past due more than 90 days	**1,847**	1,868	**348**	353
	25,498	25,738	**5,229**	4,541
Representing:				
Trade receivables (note 16)	**29,995**	30,836	**5,800**	4,914
Less: Impairment losses (note 16)	**(4,497)**	(5,098)	**(571)**	(373)
	25,498	25,738	**5,229**	4,541

With respect to the Group and the Company's trade receivables, there are no indications as of the reporting date that the debtors will not meet their payment obligations except for impairment losses recognised below.

The movements in the allowance for impairment losses of trade receivables during the year are as follows:

		Group		**Company**
In RM Mil	**2017**	**2016**	**2017**	**2016**
Opening balance	**5,098**	3,233	**373**	274
Impairment (write-back)/losses recognised	**(52)**	1,683	**198**	99
Impairment written off/adjustments	**13**	(66)	**-**	-
Disposal of a subsidiary	**-**	(22)	**-**	-
Translation exchange difference	**(562)**	270	**-**	-
Closing balance	**4,497**	5,098	**571**	373

40. FINANCIAL INSTRUMENTS (CONTINUED)

Fund and other investments

The Group and the Company are also exposed to counterparty credit risk from financial institutions, government and corporate counterparties through fund and other investment activities comprising primarily money market placement and investments in bonds, and equities. These exposures are managed in accordance with existing policies and guidelines that define the parameters within which the investment activities shall be undertaken in order to achieve the Group's investment objective of preserving capital and generating optimal returns above appropriate benchmarks within allowable risk parameters.

Investments are only made with approved counterparties who met the appropriate rating and other relevant criteria, and within approved credit limits, as stipulated in the policies and guidelines. The treasury function is governed by a counterparty credit risk management framework.

As at the reporting date, the Group and the Company have invested 99% (2016: 99%) and 100% (2016: 100%) of the investments in domestic securities respectively.

The fund and other investments are unsecured, however, in view of the sound credit rating of counterparties, management does not expect any counterparty to fail to meet its obligation.

Financial guarantees

The Group and the Company provide unsecured financial guarantees to banks in respect of banking facilities granted to certain subsidiaries, associates and joint ventures ("Group entities"). The Group and the Company monitor on an ongoing basis, the results of the Group entities and repayments made by the Group entities.

The maximum exposure to credit risk for the Company amounted to RM2,109,171,000 (2016: RM2,058,042,000), which represents the outstanding banking facilities of the entities as at reporting date. As at reporting date, there was no indication that any entities would default on repayment. The fair value of the financial guarantee recognised is disclosed in note 24.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity arises principally from its trade and other payables, and borrowings. In managing its liquidity risk, the Group maintains sufficient cash and liquid marketable assets. The Company's current credit rating enables it to access banking facilities in excess of current and immediate future requirements of the Group and of the Company. The Group's borrowing power is not limited by its Articles of Association. However, certain covenants included in agreements impose limited restrictions on some of the debt level of PETRONAS' subsidiaries.

Maturity analysis

The table below summarises the maturity profile of the Group and of the Company's financial liabilities as at the reporting date based on undiscounted contractual payments:

40. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Group **2017** *In RM Mil*	**Carrying amount**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows**	**Within 1 year**
Loans and borrowings				
Secured Term Loans				
USD floating rate loan	3,224	2.88	3,617	1,060
USD fixed rate loan	599	2.95	748	62
RM floating rate loan	420	4.41	538	36
Other fixed rate loan	13	11.00	17	3
Unsecured Term Loans				
USD floating rate loan	8,502	2.84	8,793	4,845
USD fixed rate loan	1,761	3.52	1,934	1,359
GBP floating rate loan	226	1.82	278	13
EURO floating rate loan	2,101	2.39	2,134	8
EURO fixed rate loan	22	1.60	22	20
Other floating rate loan	44	9.74	48	20
Other fixed rate loan	70	5.08	74	64
Unsecured Notes and Bonds				
USD Notes	4,060	7.88	5,499	320
USD Guaranteed Notes	27,208	4.46	37,891	1,222
USD Bonds	2,029	7.63	3,545	155
Unsecured revolving credits				
USD revolving credits	945	5.01	964	964
GBP revolving credits	917	1.20	918	918
RM revolving credits	236	5.00	242	242
Other revolving credits	31	8.40	32	32
Unsecured bank overdrafts				
USD bank overdrafts	19	2.80	19	19
Other bank overdrafts	2	6.00	2	2
Secured Islamic financing facilities				
RM Islamic financing facilities	2,140	4.95	2,884	858
Unsecured Islamic financing facilities				
USD Islamic financing facilities	5,063	2.71	5,367	137
RM Islamic financing facilities	4,383	4.29	5,420	609
CNY Islamic financing facilities	134	6.17	173	8
Other long term liabilities	1,744	-	2,729	-
Trade and other payables	45,146	-	45,146	45,146
Fair value through profit or loss – held for trading				
Derivative liabilities	484	-	484	484
	111,523		129,518	58,606

continue to next page

40. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Group **2017** *In RM Mil*	**1-2 years**	**2-5 years**	**More than 5 years**
Loans and borrowings			
Secured Term Loans			
USD floating rate loan	334	1,224	999
USD fixed rate loan	64	199	423
RM floating rate loan	33	94	375
Other fixed rate loan	3	11	-
Unsecured Term Loans			
USD floating rate loan	712	3,052	184
USD fixed rate loan	81	279	215
GBP floating rate loan	13	252	-
EURO floating rate loan	8	2,118	-
EURO fixed rate loan	1	1	-
Other floating rate loan	19	9	-
Other fixed rate loan	6	4	-
Unsecured Notes and Bonds			
USD Notes	320	4,859	-
USD Guaranteed Notes	13,400	4,744	18,525
USD Bonds	155	464	2,771
Unsecured revolving credits			
USD revolving credits	-	-	-
GBP revolving credits	-	-	-
RM revolving credits	-	-	-
Other revolving credits	-	-	-
Unsecured bank overdrafts			
USD bank overdrafts	-	-	-
Other bank overdrafts	-	-	-
Secured Islamic financing facilities			
RM Islamic financing facilities	184	622	1,220
Unsecured Islamic financing facilities			
USD Islamic financing facilities	137	5,093	-
RM Islamic financing facilities	698	1,995	2,118
CNY Islamic financing facilities	8	157	-
Other long term liabilities	455	1,067	1,207
Trade and other payables	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	-	-	-
	16,631	26,244	28,037

continued from previous page

40. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Group 2016 *In RM Mil*	Carrying amount	Contractual interest/ profit rates per annum %	Contractual cash flows	Within 1 year
Loans and borrowings				
Secured Term Loans				
USD floating rate loan	1,933	2.30	2,180	285
USD fixed rate loan	411	2.90	461	9
RM floating rate loan	428	4.40	563	29
Other fixed rate loan	14	11.00	19	3
Other floating rate loan	28	4.00	28	10
Unsecured Term Loans				
USD floating rate loan	8,749	1.80	8,934	5,465
USD fixed rate loan	1,617	2.80	1,675	32
GBP floating rate loan	338	1.80	405	13
EURO floating rate loan	2,048	0.57 - 3.17	2,233	12
EURO fixed rate loan	31	3.70	32	28
Other floating rate loan	90	12.60	128	38
Other fixed rate loan	19	5.80	21	9
Unsecured Notes and Bonds				
USD Notes	4,485	7.88	6,426	353
USD Guaranteed Notes	30,028	4.46	43,354	1,350
USD Bonds	2,242	7.63	3,916	171
Unsecured revolving credits				
USD revolving credits	1,766	1.70	1,777	1,777
GBP revolving credits	882	1.20	888	888
RM revolving credits	610	3.60	623	623
Other revolving credits	87	3.80	88	88
Unsecured bank overdrafts				
ZAR bank overdrafts	16	10.05	16	16
USD bank overdrafts	63	7.10	64	64
Other bank overdrafts	72	15.70	72	72
Secured Islamic financing facilities				
RM Islamic financing facilities	996	5.43	1,090	369
Unsecured Islamic financing facilities				
USD Islamic financing facilities	5,612	2.71	6,080	152
RM Islamic financing facilities	4,909	4.03	6,399	769
CNY Islamic financing facilities	139	6.17	173	9
Other long term liabilities	1,677	-	2,603	289
Trade and other payables	50,095	-	50,095	50,095
Fair value through profit or loss – held for trading				
Derivative liabilities	812	-	812	804
	120,197		141,155	63,822

continue to next page

40. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Group **2016** *In RM Mil*	**1-2 years**	**2-5 years**	**More than 5 years**
Loans and borrowings			
Secured Term Loans			
USD floating rate loan	287	1,138	470
USD fixed rate loan	9	24	419
RM floating rate loan	34	96	404
Other fixed rate loan	3	9	4
Other floating rate loan	10	8	-
Unsecured Term Loans			
USD floating rate loan	762	2,161	546
USD fixed rate loan	1,352	291	-
GBP floating rate loan	13	379	-
EURO floating rate loan	24	2,197	-
EURO fixed rate loan	2	1	1
Other floating rate loan	38	52	-
Other fixed rate loan	7	5	-
Unsecured Notes and Bonds			
USD Notes	353	1,059	4,661
USD Guaranteed Notes	1,350	16,049	24,605
USD Bonds	171	513	3,061
Unsecured revolving credits			
RM revolving credits	-	-	-
GBP revolving credits	-	-	-
USD revolving credits	-	-	-
Other revolving credits	-	-	-
Unsecured bank overdrafts			
ZAR bank overdrafts	-	-	-
USD bank overdrafts	-	-	-
Other bank overdrafts	-	-	-
Secured Islamic financing facilities			
RM Islamic financing facilities	575	87	59
Unsecured Islamic financing facilities			
RM Islamic financing facilities	559	2,196	2,875
USD Islamic financing facilities	152	5,776	-
CNY Islamic financing facilities	9	9	146
Other long term liabilities	289	868	1,157
Trade and other payables	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	8	-	-
	6,007	32,918	38,408

continued from previous page

40. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Company **2017** *In RM Mil*	**Carrying amount**	**Contractual interest/ profit rates per annum %**	**Contractual cash flows**	**Within 1 year**
Loans and borrowings				
Unsecured Notes and Bonds				
USD Notes	**4,060**	**7.88**	**5,499**	**320**
USD Guaranteed Notes	**27,208**	**4.46**	**37,891**	**1,222**
USD Bonds	**2,029**	**7.63**	**3,545**	**155**
Unsecured Islamic financing facilities				
USD Islamic financing facilities	**5,063**	**2.71**	**5,367**	**137**
Other long term liabilities	**1,744**	**-**	**2,729**	**-**
Trade and other payables	**19,854**	**-**	**19,854**	**19,854**
Fair value through profit or loss – held for trading				
Derivative liabilities	**21**	**-**	**21**	**21**
	59,979		**74,906**	**21,709**

continue to next page

2016 *In RM Mil*				
Loans and borrowings				
Unsecured Notes and Bonds				
USD Notes	4,485	7.88	6,426	353
USD Guaranteed Notes	30,028	4.46	43,354	1,350
USD Bonds	2,242	7.63	3,916	171
Unsecured Islamic financing facilities				
USD Islamic financing facilities	5,612	2.71	6,080	152
Other long term liabilities	1,728	-	2,654	340
Trade and other payables	30,232	-	30,232	30,232
Fair value through profit or loss – held for trading				
Derivative liabilities	3	-	3	3
	74,330		92,665	32,601

continue to next page

40. FINANCIAL INSTRUMENTS (CONTINUED)

Maturity analysis (continued)

Company

2017 *In RM Mil*	**1-2 years**	**2-5 years**	**More than 5 years**
Loans and borrowings			
Unsecured Notes and Bonds			
USD Notes	**320**	**4,859**	**-**
USD Guaranteed Notes	**13,400**	**4,744**	**18,525**
USD Bonds	**155**	**464**	**2,771**
Unsecured Islamic financing facilities			
USD Islamic financing facilities	**137**	**5,093**	**-**
Other long term liabilities	**455**	**1,067**	**1,207**
Trade and other payables	**-**	**-**	**-**
Fair value through profit or loss – held for trading			
Derivative liabilities	**-**	**-**	**-**
	14,467	**16,227**	**22,503**

continued from previous page

2016 *In RM Mil*			
Loans and borrowings			
Unsecured Notes and Bonds			
USD Notes	353	1,059	4,661
USD Guaranteed Notes	1,350	16,049	24,605
USD Bonds	171	513	3,061
Unsecured Islamic financing facilities			
USD Islamic financing facilities	152	5,776	-
Other long term liabilities	289	868	1,157
Trade and other payables	-	-	-
Fair value through profit or loss – held for trading			
Derivative liabilities	-	-	-
	2,315	24,265	33,484

continued from previous page

40. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk

Market risk is the risk or uncertainty arising from change in market prices and their impact on the performance of the business. The market price changes that the Group and the Company is exposed to include interest rates, foreign currency exchange rates, commodity prices, equity prices and other indices that could adversely affect the value of the Group's and the Company's financial assets, liabilities or expected future cash flows.

Interest rate risk

The Group and the Company's investments in fixed rate debt securities and funding through fixed rate borrowings are exposed to a risk of change in their fair values due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short term receivables and payables are not significantly exposed to interest rate risk.

All interest rate exposures are monitored and managed proactively in line with PETRONAS' policies and guidelines. The Group enters into hedging transactions with respect to interest rate on certain long term borrowings and other debts where necessary and appropriate, in accordance with policies and guidelines.

The interest rate profile of the Group's and the Company's interest-bearing financial instruments based on carrying amount as at reporting date is as follows:

		Group		Company
In RM Mil	**2017**	**2016**	**2017**	**2016**
Fixed rate instruments				
Financial assets	**129,382**	121,114	**139,686**	193,166
Financial liabilities	**(49,198)**	(48,865)	**(38,360)**	(42,367)
	80,184	72,249	**101,326**	150,799
Floating rate instruments				
Financial assets	**3,390**	3,777	**40,595**	20,739
Financial liabilities	**(14,951)**	(18,748)	**-**	-
	(11,561)	(14,971)	**40,595**	20,739

Since most of the Group and the Company's financial assets and liabilities are fixed rate instruments measured at amortised cost, a change in interest rate is not expected to have material impact on the Group and the Company's profit or loss.

Foreign exchange risk

The Group and the Company are exposed to varying levels of foreign exchange risk when they enter into transactions that are not denominated in the respective companies' functional currencies and when foreign currency monetary assets and liabilities are translated at the reporting date. The main underlying economic currencies of the Group's cash flows are Ringgit Malaysia and US Dollars.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange risk (continued)

The Group and the Company's foreign exchange management policy are to minimise economic and significant transactional exposures arising from currency movements. The Group coordinates the handling of foreign exchange risks centrally typically by matching receipts and payments for the same currency. For major capital projects, the Group performs assessment of potential foreign exchange risk exposure at the investment decision phase to determine the appropriate foreign exchange risk management strategy. Residual net positions are actively managed and monitored against prescribed policies and control procedures. When deemed necessary and appropriate, the Group will enter into derivative financial instruments to hedge and minimise its exposures to the foreign currency movements.

The Group and the Company's significant exposure to foreign currency risk, based on carrying amounts as at the reporting date is as follows:

Group

In Rm Mil	**2017**	**2016**
Denominated In USD		
Financial Assets		
Loan and advances to subsidiaries	**89,693**	126,573
Cash and cash equivalents	**11,667**	24,353
Trade and other receivables	**18,455**	15,816
Fund and other investments	**270**	277
Other financial assets	**71**	375
	120,156	167,394
Financial liabilities		
Loan and advances from holding company	**(13,271)**	(16,923)
Borrowings	**(31,883)**	(34,850)
Trade and other payables	**(13,909)**	(18,993)
Other financial liabilities	**(1,009)**	(126)
	(60,072)	(70,892)
Net exposure	**60,084**	96,502
Denominated in RM		
Financial assets		
Cash and cash equivalents	**8**	5
Trade and other receivables	**5,622**	3,852
Other financial assets	**-**	3
	5,630	3,860
Financial liabilities		
Trade and other payables	**(10,266)**	(4,203)
Other financial liabilities	**-**	(18)
	(10,266)	(4,221)
Net exposure	**(4,636)**	(361)

40. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange risk (continued)

Company

In RM Mil	**2017**	**2016**
Denominated in USD		
Financial assets		
Loan and advances to subsidiaries	**89,706**	126,295
Cash and cash equivalents	**27,979**	40,176
Trade and other receivables	**16,485**	9,787
	134,170	176,258
Financial liabilities		
Cash and cash equivalents - Subsidiaries' cash with PETRONAS Integrated Financial Shared Service Centre	**(16,704)**	(16,269)
Borrowings	**(38,360)**	(42,367)
Trade and other payables	**(8,521)**	(6,449)
Other financial liabilities	**(1,729)**	(1,678)
	(65,314)	(66,763)
Net exposure	**68,856**	109,495

Sensitivity analysis for a given market variable provided in this note, discloses the effect on profit or loss and equity as at 31 December 2017 assuming that a reasonably possible change in the relevant market variable had occurred at 31 December 2017 and been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for equity and commodity prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgment and historical experience.

The sensitivity analysis is hypothetical and should not be considered to be predictive of future performance because the Group's actual exposure to market prices is constantly changing with changes in the Group's portfolio of among others, commodity, debt and foreign currency contracts. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a given market variable is calculated independently of any change in another assumption and mitigating actions that would be taken by the Group. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities.

The following table demonstrates the indicative pre-tax effects on the profit or loss and equity of applying reasonably foreseeable market movements in the following currency exchange rates:

2017	**Appreciation in foreign currency rate**	**Group**		**Company**	
In RM Mil	**%**	**Equity**	**Profit or loss**	**Equity**	**Profit or loss**
USD	**10**	**3,659**	**2,577**	**-**	**6,886**
MYR	**10**	**-**	**(464)**	**-**	**-**
2016					
USD	10	8,291	1,925	-	10,949
MYR	10	-	(36)	-	-

A depreciation in foreign currency rate above would have had equal but opposite effect, on the basis that all other variables remain constant.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Equity price risk

Equity price risk arises from the Group and the Company's investments in equity securities. Exposures to equity price risk are managed in accordance to Group's existing policies and guidelines. The Group and the Company monitors the equity investments on a portfolio basis and a performance benchmark is established for each investment portfolio giving consideration to portfolio objectives and return expectation. All buy and sell decisions are monitored by the Group Treasury Division.

The Group and the Company also hold equity investment for strategic purposes, that are classified as available-for-sale financial assets. Reports on the equity portfolio performance are submitted to the Group's and the Company's senior management on a regular basis.

The Group and the Company's exposure to equity price risk based on carrying amounts as at the reporting date is as follows:

		Group		Company
In RM Mil	**2017**	**2016**	**2017**	**2016**
Local equities	**627**	583	**9**	54
Foreign equities	**3,168**	5,113	**-**	-
	3,795	5,696	**9**	54

The following table demonstrates the indicative pre-tax effects on the profit or loss and equity of applying reasonably foreseeable market movements in the following equities:

2017	**Increase in price based on average change in index rate**		**Group**		**Company**
In RM Mil	**%**	**Equity**	**Profit or loss**	**Equity**	**Profit or loss**
Local equities	**10**	**7**	**55**	**1**	**-**
Foreign equities	**15 to 20**	**521**	**-**	**-**	**-**
2016					
Local equities	15	18	69	8	-
Foreign equities	15 to 30	846	-	-	-

A decrease in price based on average change in index rate above would have had equal but opposite effect, on the basis that all other variables remain constant.

Commodity price risk

The Group is exposed to changes in crude oil, gas and petroleum products prices which may affect the value of the Group's assets, liabilities or expected future cash flows. To mitigate these exposures from a business perspective, the Group enters into various financial instruments. In effecting these transactions, the Group operates within policies and procedures designed to ensure that risks are minimised. All financial instruments positions are marked-to-market by independent risk management department and reported to management for performance monitoring and risk management purposes on a daily basis.

Since the Group undertakes hedging using commodity derivatives for the majority of its transactions, a change in commodity price is not likely to result in a significant impact on the Group's profit or loss and equity.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables, revolving credits and bank overdrafts reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The following table analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

Group 2017	**Fair value of financial instruments carried at fair value**		
In RM Mil	**Level 1**	**Level 2**	**Total**
Financial Assets			
Quoted shares	3,754	41	3,795
Quoted securities	981	162	1,143
Malaysian Government Securities	-	42	42
Corporate Private Debt Securities	-	2,875	2,875
Forward foreign exchange contracts	-	219	219
Forward gas contracts	166	-	166
Forward oil/gas price swaps	64	-	64
Interest rate swaps	-	30	30
	4,965	3,369	8,334
Financial Liabilities			
Commodity swaps	-	(51)	(51)
Forward foreign exchange contracts	-	(117)	(117)
Forward gas contracts	(221)	-	(221)
Forward oil/gas price swaps	(95)	-	(95)
	(316)	(168)	(484)

Group 2017	**Fair value of financial instruments carried at fair value**			**Carrying amount**
In RM Mil	**Level 2**	**Level 3**	**Total**	
Financial assets				
Unquoted shares	-	704	704	443
Malaysian Government Securities	-	9	9	9
Long term receivables	-	4,276	4,276	4,275
Finance lease receivables	-	9,371	9,371	9,371
	-	14,360	14,360	14,098
Financial liabilities				
Notes and Bonds	(36,292)	-	(36,292)	(33,297)
Term loans	-	(16,971)	(16,971)	(16,982)
Islamic financing facilities	(5,063)	(6,657)	(11,720)	(11,720)
Other long term liabilities	-	(1,770)	(1,770)	(1,744)
	(41,355)	(25,398)	(66,753)	(63,743)

40. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Group 2016	Fair value of financial instruments carried at fair value		
In RM Mil	Level 1	Level 2	Total
Financial Assets			
Quoted shares	5,660	36	5,696
Quoted securities	38	283	321
Malaysian Government Securities	-	47	47
Corporate Private Debt Securities	-	3,514	3,514
Commodity swaps	-	4	4
Forward foreign exchange contracts	-	17	17
Forward gas contracts	285	-	285
	5,983	3,901	9,884
Financial Liabilities			
Commodity swaps	-	(113)	(113)
Forward foreign exchange contracts	-	(162)	(162)
Forward gas contracts	(389)	-	(389)
Forward oil/gas price swaps	(147)	-	(147)
Interest rate swaps	-	(1)	(1)
	(536)	(276)	(812)

Group 2016	Fair value of financial instruments carried at fair value			Carrying amount
In RM Mil	Level 2	Level 3	Total	
Financial assets				
Unquoted securities	-	685	685	685
Long term receivables	-	2,819	2,819	2,755
Finance lease receivables	-	10,314	10,314	10,314
	-	13,818	13,818	13,754
Financial liabilities				
Notes and Bonds	(35,086)	-	(35,086)	(36,755)
Term loans	-	(15,584)	(15,584)	(15,706)
Islamic financing facilities	(5,343)	(6,036)	(11,379)	(11,656)
Other long term liabilities	-	(1,677)	(1,677)	(1,677)
	(40,429)	(23,297)	(63,726)	(65,794)

40. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Company 2017 *In RM Mil*	Fair value of financial instruments carried at fair value Level 1	 Level 2	 Total
Financial assets			
Quoted shares	9	-	9
Malaysian Government Securities	-	33	33
Corporate Private Debt Securities	-	1,338	1,338
Forward foreign exchange contracts	-	8	8
	9	1,379	1,388
Financial liabilities			
Forward foreign exchange contracts	-	(21)	(21)

Company 2017 *In RM Mil*	Fair value of financial instruments carried at fair value Level 2	 Level 3	 Total	Carrying amount
Financial assets				
Unquoted shares	-	76	76	76
Long term receivables	-	119,479	119,479	116,964
	-	119,555	119,555	117,040
Financial liabilities				
Notes and Bonds	(36,292)	-	(36,292)	(33,297)
Islamic financing facilities	(5,070)	-	(5,070)	(5,063)
Other long term liabilities	(1,772)	-	(1,772)	(1,744)
	(43,134)	-	(43,134)	(40,104)

Company 2016 *In RM Mil*	Fair value of financial instruments carried at fair value Level 1	 Level 2	 Total
Financial assets			
Quoted shares	54	-	54
Malaysian Government Securities	-	47	47
Corporate Private Debt Securities	-	4,417	4,417
Forward foreign exchange contracts	-	13	13
	54	4,477	4,531
Financial liabilities			
Forward foreign exchange contracts	-	(3)	(3)

40. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value information (continued)

Company **2016** *In RM Mil*	**Fair value of financial instruments carried at fair value** Level 2	Level 3	Total	**Carrying amount**
Financial assets				
Unquoted shares	-	76	76	76
Long term receivables	-	159,746	159,746	161,258
	-	159,822	159,822	161,334
Financial liabilities				
Notes and Bonds	(35,086)	-	(35,086)	(36,755)
Islamic financing facilities	(5,343)	-	(5,343)	(5,612)
Other long term liabilities	(1,777)	-	(1,777)	(1,728)
	(42,206)	-	(42,206)	(44,095)

Derivatives

The calculation of fair value for derivative financial instruments depends on the type of instruments. The fair value of interest rate swap agreements are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The fair value of forward foreign currency exchange contracts is based on the fair value difference between forward exchange rates and the contracted rate. The fair value of commodity swap and commodity forward contracts is based on the fair value difference between market price at the date of measurement and the contracted price.

Non-derivative financial instruments

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Income/(expense), net gains and losses arising from financial instruments

Group **2017** *In RM Mil*	**Interest income**	**Interest expense**	**Impairment loss**	**Others**	**Total**
Financial instruments at fair value through profit or loss					
- Held for trading	**2**	**-**	**-**	**69**	**71**
- Designated upon initial recognition	**133**	**-**	**-**	**47**	**180**
Available-for-sale					
- recognised in profit or loss	**239**	**-**	**(8)**	**478**	**709**
- recognised in equity	**-**	**-**	**-**	**(1,517)**	**(1,517)**
Loans and receivables					
- recognised in profit or loss	**4,015**	**-**	**(383)**	**(7,320)**	**(3,688)**
- recognised in equity	**-**	**-**	**-**	**(1,910)**	**(1,910)**
Financial liabilities at amortised cost	**-**	**(2,810)**	**-**	**3,300**	**490**
Total	**4,389**	**(2,810)**	**(391)**	**(6,853)**	**(5,665)**

2016					
Financial instruments at fair value through profit or loss					
- Held for trading	-	-	-	874	874
- Designated upon initial recognition	105	-	-	(6)	99
Held-to-maturity	161	-	-	-	161
Available-for-sale					
- recognised in profit or loss	57	-	10	235	302
- recognised in equity	-	-	-	2,094	2,094
Loans and receivables					
- recognised in profit or loss	4,019	-	(1,810)	6,185	8,394
- recognised in equity	-	-	-	(597)	(597)
Financial liabilities at amortised cost	-	(2,422)	-	(2,496)	(4,918)
Total	4,342	(2,422)	(1,800)	6,289	6,409

40. FINANCIAL INSTRUMENTS (CONTINUED)

Income/(expense), net gains and losses arising from financial instruments (continued)

Company **2017** *In RM Mil*	**Interest income**	**Interest expense**	**Impairment loss**	**Others**	**Total**
Financial instruments at fair value through profit or loss					
- Designated upon initial recognition	**41**	**-**	**-**	**-**	**41**
Available-for-sale					
- recognised in profit or loss	**78**	**-**	**-**	**119**	**197**
- recognised in equity	**-**	**-**	**-**	**(20)**	**(20)**
Loans and receivables	**6,758**	**-**	**(198)**	**(12,254)**	**(5,694)**
Financial liabilities at amortised cost	**-**	**(2,222)**	**-**	**3,297**	**1,075**
Total	**6,877**	**(2,222)**	**(198)**	**(8,858)**	**(4,401)**
2016					
Financial instruments at fair value through profit or loss					
- Designated upon initial recognition	91	-	-	-	91
Held-to-maturity	137	-	-	-	137
Available-for-sale					
- recognised in profit or loss	161	-	-	77	238
- recognised in equity	-	-	-	(6)	(6)
Loans and receivables	8,179	-	3	5,696	13,878
Financial liabilities at amortised cost	-	(2,031)	-	(1,804)	(3,835)
Total	8,568	(2,031)	3	3,963	10,503

Others relate to gains and losses arising from financial instruments other than interest income, interest expense and impairment loss such as realised and unrealised foreign exchange gains or losses, dividend income and fair value gains or losses.

41. CAPITAL MANAGEMENT

The Group, as an essential part of its capital management strategy, is committed to a policy of financial prudence as outlined in the PETRONAS Group Corporate Financial Policy. The Group's capital structure consists of consolidated equity plus debt, defined as the current and long term portions of the Group's debt.

The objective of the Group's capital management is to maintain an optimal capital structure and ensure availability of funds in order to meet financial obligations, support business growth and maximise shareholders' value. The Group monitors and maintains a prudent level of total debt to total assets ratio so as to enable compliance with all covenants.

There were no changes in the Group's approach to capital management during the year.

42. AMENDMENTS TO MFRS AND PRONOUNCEMENTS ISSUED BY MASB

Adoption of new and revised pronouncements

As of 1 January 2017, the Group and the Company adopted the following pronouncements that have been issued by the MASB and are applicable as listed below:

Effective for annual periods beginning on or after 1 January 2017

Amendments to MFRS 12 *Disclosure of Interests in Other entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
Amendments to MFRS 107 *Statement of Cash Flows: Disclosure initiative*
Amendments to MFRS 112 *Income taxes: Recognition of Deferred Tax Assets for Unrealised Losses*

The initial application of the abovementioned pronouncements did not have any material impact to the financial statements of the Group and the Company.

Pronouncements yet in effect

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by the Group and the Company in these financial statements:

Effective for annual periods beginning on or after 1 January 2018

MFRS 9 *Financial Instruments (2014)*
MFRS 15 *Revenue from Contracts with Customers*
Amendments to MFRS 4 *Insurance Contracts: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
Amendments to MFRS 15 *Revenue from Contracts with Customers: Clarifications to MFRS 15*
Amendments to MFRS 128 *Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)*
Amendments to MFRS 140 *Investment Property: Transfers of Investment Property*
IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

Effective for annual periods beginning on or after 1 January 2019

MFRS 16 *Leases*
Amendments to MFRS 3 *Business Combinations (Annual Improvements 2015-2017 Cycle)*
Amendments to MFRS 11 *Joint Arrangements (Annual Improvements 2015-2017 Cycle)*
Amendments to MFRS 112 *Income Taxes (Annual Improvements 2015-2017 Cycle)*
Amendments to MFRS 123 *Borrowing Costs (Annual Improvements 2015-2017 Cycle)*
Amendments to MFRS 128 *Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*
IC Interpretation 23 *Uncertainty over Income Tax Treatments*

Effective for annual periods beginning on or after 1 January 2021

MFRS 17 *Insurance Contracts*

Effective for a date yet to be confirmed

Amendments to MFRS 10 *Consolidated Financial Statements: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to MFRS 128 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

42. AMENDMENTS TO MFRS AND PRONOUNCEMENTS ISSUED BY MASB (CONTINUED)

Pronouncements yet in effect (continued)

The Group and the Company are expected to adopt the abovementioned pronouncements beginning from the respective dates the pronouncements become effective. The initial application of the abovementioned pronouncements are not expected to have any material impact to the financial statements of the Group and the Company except as mentioned below:

i. MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111 *Construction Contracts*, MFRS 118 *Revenue*, IC Interpretation 13 *Customer Loyalty Programmes*, IC Interpretation 15 *Agreements for Construction of Real Estate*, IC Interpretation 18 *Transfers of Assets from Customers* and IC Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

Based on the assessment, the Group and the Company does not expect the application of MFRS 15 to have a significant impact on its financial statements.

ii. MFRS 9 *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and on hedge accounting.

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The new standard contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”), and eliminates the existing MFRS 139 categories of held-to-maturity, loans and receivables and available-for-sale.

Based on the assessment, the Group and the Company does not believe that the new classification requirements will have a material impact on its accounting for long term receivables, fund and other investments that have been designated upon initial recognition at fair value through profit or loss, and trade and other receivables.

At 31 December 2017, the Group had equity investments classified as available-for-sale with a fair value of RM3,241,000,000 that are held for long-term strategic purposes and investments in debt securities of RM2,863,000,000. Under MFRS 9, the Group has designated these investments as measured at FVTPL. Consequently, all fair value gains and losses will be reported in profit or loss, and no impairment losses will be recognised in profit or loss.

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss (“ECL”) model. Under MFRS 9, loss allowances will be measured on either 12-month ECLs or lifetime ECLs.

The Group has established a structured implementation program which includes undertaking impact assessment, guideline, changes to system and process, training program as well as engaging with relevant experts within the Group to ensure readiness and smooth implementation of MFRS 9.

The Group and the Company have estimated the initial application of the new impairment model will not have significant impact on the opening balance of the retained earnings as at 1 January 2018.

MFRS 9 also requires extensive new disclosures in the financial statements, in particular about hedge accounting, credit risk and ECLs. The Group and the Company are currently finalising the full disclosure impact of MFRS 9.

iii. MFRS 16 *Leases*

MFRS 16 replaces existing leases guidance in MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Leases – Incentives*, and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The Group is currently assessing the financial impact that may arise from the adoption of MFRS 16.

42. AMENDMENTS TO MFRS AND PRONOUNCEMENTS ISSUED BY MASB (CONTINUED)

New pronouncements not applicable to the Group and the Company

The MASB has issued pronouncements which are not yet effective, but for which are not relevant to the operations of the Group and the Company and hence, no further disclosure is warranted.

Effective for annual periods beginning on or after 1 January 2018

Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014-2016 Cycle)*

Amendments to MFRS 2 *Share-based Payment: Classification and Measurement of Share-based Payment Transactions*

Effective for annual periods beginning on or after 1 January 2019

Amendments to MFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*

43. KEY SUBSIDIARIES AND ACTIVITIES

		Effective Percentage Holding 2017 %	Effective Percentage Holding 2016 %	Country of Incorporation	Principal Activities
*	PETRONAS Carigali Sdn. Bhd.	**100**	100	Malaysia	Petroleum exploration, development and production
	PC JDA Limited	**100**	100	Republic of Mauritius	Petroleum operations
	PETRONAS Carigali Overseas Sdn. Bhd.	**100**	100	Malaysia	Investment holding and petroleum operations
	E&P Malaysia Venture Sdn. Bhd.	**100**	100	Malaysia	Petroleum operations
∞*	PETRONAS International Corporation Ltd.	**100**	100	Malaysia	Investment holding
	PETRONAS Carigali Iraq Holding B.V.	**100**	100	Netherlands	Petroleum operations
	PETRONAS Carigali Chad Exploration & Production Inc.	**100**	100	Cayman Islands	Investment holding
	PETRONAS Carigali (Chad EP) Inc.	**100**	100	Cayman Islands	Petroleum operations
	PETRONAS Chad Marketing Inc.	**100**	100	Cayman Islands	Trading of petroleum products
	PC Vietnam Limited	**100**	100	Republic of Mauritius	Petroleum operations
	PC (Myanmar) Holdings Limited	**100**	100	Hong Kong	Investment holding
	PC Myanmar (Hong Kong) Limited	**100**	100	Hong Kong	Petroleum operations
∞	PC Muriah Ltd.	**100**	100	Malaysia	Petroleum operations
	PETRONAS Australia Pty Limited	**100**	100	Australia	Investment holding
	PAPL (Upstream) Pty Limited	**100**	100	Australia	Exploration and production of coal seam gas
	PAPL (Downstream) Pty Limited	**100**	100	Australia	Production and transportation of liquefied natural gas for export
	PETRONAS Carigali (Jabung) Ltd.	**100**	100	Bahamas	Petroleum operations

43. KEY SUBSIDIARIES AND ACTIVITIES (CONTINUED)

		Effective Percentage Holding 2017 %	Effective Percentage Holding 2016 %	Country of Incorporation	Principal Activities
	PETRONAS Carigali Myanmar Inc.	**100**	100	Liberia	Petroleum operations
	PETRONAS Carigali Nile Ltd.	**100**	100	Republic of Mauritius	Petroleum operations
	PETRONAS (E&P) Overseas Ventures Sdn. Bhd.	**100**	100	Malaysia	Investment holding
	Natuna 1 B.V.	**100**	100	Netherlands	Petroleum operations
	PETRONAS Carigali Canada B.V.	**100**	100	Netherlands	Investment holding
	Progress Energy Canada Ltd.	**100**	100	Canada	Petroleum and gas exploration, development and production
	PETRONAS E&P Argentina S.A.	**100**	100	Argentina	Petroleum and gas exploration, development and production
	PETRONAS Azerbaijan Upstream Sdn. Bhd.	**100**	100	Malaysia	Investment holding
	PETRONAS South Caucasus S.a.r.l.	**100**	100	Luxembourg	Investment holding
	PETRONAS Azerbaijan (Shah Deniz) S.a.r.l.	**100**	100	Luxembourg	Petroleum operations
	PETRONAS Carigali (Turkmenistan) Sdn. Bhd.	**100**	100	Malaysia	Petroleum operations
∞	PICL (Egypt) Corporation Ltd.	**100**	100	Malaysia	Investment holding, exploration and production of oil and gas
	PETRONAS Power Sdn. Bhd.	**100**	100	Malaysia	Investment holding
	Pengerang Power Sdn. Bhd.	**100**	100	Malaysia	Developing and operating a power generation plant and distribution of electricity and steam
	PETRONAS LNG Sdn. Bhd.	**100**	100	Malaysia	Investment holding
∞	PETRONAS LNG Ltd.	**100**	100	Malaysia	Trading of natural gas and LNG
	PETRONAS Energy Trading Limited	**100**	100	United Kingdom	Trading of natural gas and LNG
*	Malaysia LNG Sdn. Bhd.	**90**	90	Malaysia	Liquefaction and sale of LNG
*	Malaysia LNG Dua Sdn. Bhd.	**80**	80	Malaysia	Liquefaction and sale of LNG
*	Malaysia LNG Tiga Sdn. Bhd.	**60**	60	Malaysia	Liquefaction and sale of LNG
*	PETRONAS LNG 9 Sdn. Bhd.	**80**	90	Malaysia	Purchase and liquefaction of natural gas and marketing of LNG
∞*	PETRONAS Floating LNG 1 (L) Ltd.	**100**	100	Malaysia	Developing, constructing, owning, operating and maintaining an integrated floating natural gas liquefaction, storage and off loading facility
∞*	PETRONAS Floating LNG 2 (L) Ltd.	**100**	100	Malaysia	Developing, constructing, owning, operating and maintaining an integrated floating natural gas liquefaction, storage and off loading facility

43. KEY SUBSIDIARIES AND ACTIVITIES (CONTINUED)

		Effective Percentage Holding 2017 %	Effective Percentage Holding 2016 %	Country of Incorporation	Principal Activities
*	PETRONAS Marketing International Sdn. Bhd.	**100**	100	Malaysia	Investment holding
	Engen Limited	**74**	80	South Africa	Refining of crude oil and marketing of refined petroleum products
@*	PETRONAS Dagangan Berhad	**69.9**	69.9	Malaysia	Domestic marketing of petroleum products
@*	PETRONAS Gas Berhad	**60.6**	60.6	Malaysia	Processing and transmission of natural gas
	Regas Terminal (Sg. Udang) Sdn. Bhd.	**60.6**	60.6	Malaysia	Manage and operate LNG regasification terminal
	Pengerang LNG2 Sdn. Bhd.	**39.4**	39.4	Malaysia	Manage and operate LNG regasification terminal
*	PETRONAS Refinery & Petrochemical Corporation Sdn. Bhd.	**100**	100	Malaysia	Development and ownership of Refinery and Petrochemical Integrated Complex
	PRPC Refinery & Cracker Sdn. Bhd.	**100**	100	Malaysia	Blending, processing or cracking of crude, condensates, feedstock or intermediate feedstock
	PRPC Utilities & Facilities Sdn. Bhd.	**100**	100	Malaysia	Supply and service of utilities and common facilities and infrastructures
	PRPC Water Sdn. Bhd.	**100**	100	Malaysia	Supply of raw water
*	PETRONAS Penapisan (Melaka) Sdn. Bhd.	**100**	100	Malaysia	Refining and condensation of crude oil
*	Malaysian Refining Company Sdn. Bhd.	**100**	100	Malaysia	Refining and condensation of crude oil
*	PETRONAS Penapisan (Terengganu) Sdn. Bhd.	**100**	100	Malaysia	Refining and condensation of crude oil
*	PETRONAS Trading Corporation Sdn. Bhd.	**100**	100	Malaysia	Marketing of crude oil and trading in crude oil and petroleum products and investment holding
∞	PETCO Trading Labuan Company Ltd.	**100**	100	Malaysia	Marketing of crude oil and trading in crude oil and petroleum products
	PETCO Trading (UK) Limited	**100**	100	United Kingdom	Marketing of crude oil and trading in crude oil and petroleum products
	PETCO Trading DMCC	**100**	100	United Arab Emirates	Trading of petroleum products
@*	PETRONAS Chemicals Group Berhad	**64.3**	64.3	Malaysia	Investment holding
	PETRONAS Chemicals Aromatics Sdn. Bhd.	**45**	45	Malaysia	Production and sale of aromatics products
	PETRONAS Chemicals Ammonia Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of ammonia, syngas and carbon monoxide

43. KEY SUBSIDIARIES AND ACTIVITIES (CONTINUED)

		Effective Percentage Holding 2017 %	Effective Percentage Holding 2016 %	Country of Incorporation	Principal Activities
∞	PETRONAS Chemicals Marketing (Labuan) Ltd.	**64.3**	64.3	Malaysia	Marketing of petrochemical products
	PETRONAS Chemicals Fertiliser Kedah Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of urea, ammonia and methanol
	PETRONAS Chemicals Glycols Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of ethylene oxide, ethylene glycol and other related by-products
	PETRONAS Chemicals Marketing Sdn. Bhd.	**64.3**	64.3	Malaysia	Marketing of petrochemical products
	PETRONAS Chemicals Methanol Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of methanol
	PETRONAS Chemicals MTBE Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of methyl tertiary butyl ether and propylene
	PETRONAS Chemicals Olefins Sdn. Bhd.	**56.6**	56.6	Malaysia	Production and sale of ethylene, propylene and other hydrocarbon by-products
	Asean Bintulu Fertilizer Sdn. Bhd.	**40.9**	40.9	Malaysia	Processing of natural gas into urea and ammonia
	PETRONAS Chemicals Derivatives Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of ethylene oxide derivatives, propylene derivatives and related chemical products
	PETRONAS Chemicals Polyethylene Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of polyethylene
	PETRONAS Chemicals Ethylene Sdn. Bhd.	**56.3**	56.3	Malaysia	Production and sale of ethylene
	PETRONAS Chemicals Fertiliser Sabah Sdn. Bhd.	**64.3**	64.3	Malaysia	Production and sale of ammonia and urea
	PETRONAS Chemicals LDPE Sdn. Bhd.	**38.6**	38.6	Malaysia	Production and sale of low-density polyethylene pellets (“LDPE”)
	PRPC Polymers Sdn. Bhd.	**64.3**	64.3	Malaysia	Development of Polymer plant and production of Polypropylene (“PP”), and LDPE
*	PrimeSourcing International Sdn. Bhd.	**100**	100	Malaysia	Marketing and trading of steel, mechanical and electrical instrumentation, chemical and catalyst
*	PETRONAS Lubricants International Sdn. Bhd.	**100**	100	Malaysia	Investment holding, manufacturing and trading of lubricant products
	PLI (Netherlands) B.V.	**100**	100	Netherlands	Investment holding
	PETRONAS Lubricants Italy S.p.A	**100**	100	Italy	Manufacturing and marketing of lubricant products
	PETRONAS Lubrificantes Brasil S.A.	**100**	100	Brazil	Manufacturing and marketing of lubricant products

43. KEY SUBSIDIARIES AND ACTIVITIES (CONTINUED)

		Effective Percentage Holding 2017 %	Effective Percentage Holding 2016 %	Country of Incorporation	Principal Activities
@*	MISC Berhad	**62.6**	62.6	Malaysia	Shipping and shipping related activities
	AET Tanker Holdings Sdn. Bhd.	**62.6**	62.6	Malaysia	Investment holding
@	Malaysia Marine and Heavy Engineering Holdings Berhad	**41.6**	41.6	Malaysia	Investment holding
∞	Gas Asia Terminal (L) Pte. Ltd.	**62.6**	62.6	Malaysia	Development and ownership of LNG floating storage units
∞	MISC Capital (L) Ltd.	**62.6**	62.6	Malaysia	Special purpose vehicle for financing arrangement
∞	MISC Offshore Floating Terminals (L) Ltd.	**62.6**	62.6	Malaysia	Offshore floating terminals ownership
∞	Gumusut-Kakap Semi-Floating Production System (L) Limited	**62.6**	62.6	Malaysia	Owning and leasing of semi-submersible floating production system
	MISC Tankers Sdn. Bhd.	**62.6**	62.6	Malaysia	Investment holding and provision of management services
	MISC Tanker Holdings Sdn. Bhd.	**62.6**	62.6	Malaysia	Investment holding
	MISC Tanker Holdings (Bermuda) Limited	**62.6**	62.6	Bermuda	Investment holding
*	KLCC (Holdings) Sdn. Bhd.	**100**	100	Malaysia	Investment holding, property development management and provision of management services
	Kuala Lumpur Convention Centre Sdn. Bhd.	**100**	100	Malaysia	Property investment
	Putrajaya Holdings Sdn. Bhd.	**64.4**	64.4	Malaysia	Property development and investment
@	KLCC Property Holdings Berhad	**75.5**	75.5	Malaysia	Investment holding, property investment and provision of management services
@	KLCC Real Estate Investment Trust ("KLCC REIT")	**-**	-	Malaysia	To invest in a Shariah compliant portfolio of real estate assets and real estate related assets
	Suria KLCC Sdn. Bhd.	**45.5**	45.5	Malaysia	Property investment
	Putrajaya Homes Sdn. Bhd.	**64.4**	64.4	Malaysia	General construction and property development
	Putrajaya Ventures Sdn. Bhd.	**64.4**	64.4	Malaysia	Property development
	Putrajaya Bina Sdn. Bhd.	**64.4**	64.4	Malaysia	Leasing of building and property management
*	Institute of Technology PETRONAS Sdn. Bhd.	**100**	100	Malaysia	Institute of higher learning
∞*	Energas Insurance (L) Limited	**100**	100	Malaysia	Offshore captive insurance business
∞*	PETRONAS Capital Limited	**100**	100	Malaysia	Investment holding
∞	PETRONAS Global Sukuk Limited	**100**	100	Malaysia	Investment holding

43. KEY SUBSIDIARIES AND ACTIVITIES (CONTINUED)

		Effective Percentage Holding 2017 %	Effective Percentage Holding 2016 %	Country of Incorporation	Principal Activities
ß	Petroleum Research Fund	**-**	-	Malaysia	Providing financial contributions to research activities relating to petroleum and other energy sources industry
ß	Abandonment Cess Fund	**-**	-	Malaysia	Manage, hold and utilise the trust fund to discharge obligations for the Abandonment of Petroleum Facilities in Malaysia
*	PETRONAS Assets Sdn. Bhd.	**100**	100	Malaysia	Owning and leasing of assets
*	PETRONAS Hartabina Sdn. Bhd.	**100**	100	Malaysia	Property holding
*	PETRONAS Technical Training Sdn. Bhd.	**100**	100	Malaysia	Provision of training services
*	PETRONAS Management Training Sdn. Bhd.	**100**	100	Malaysia	Provision of training services
*	PETRONAS NGV Sdn. Bhd.	**100**	100	Malaysia	Promoting and retailing of natural gas for vehicles
*	PETRONAS Research Sdn. Bhd.	**100**	100	Malaysia	Provision of research, advisory and technology development services
*	PETRONAS Technical Services Sdn. Bhd.	**100**	100	Malaysia	Provision of technical and project management services
*	Petrosains Sdn. Bhd.	**100**	100	Malaysia	Management of a petroleum discovery centre
*	Sanzbury Stead Sdn. Bhd.	**100**	100	Malaysia	Property holding
*	OGP Technical Services Sdn. Bhd.	**100**	100	Malaysia	Provision of technical and project management services
*	Marmel Incorporated	**100**	100	Republic of Liberia	Investment holding
*	PETRONAS e-Learning Solutions Sdn. Bhd.	**100**	100	Malaysia	Dormant

The Group does not hold any ownership interest in KLCC Real Estate Investment Trust ("KLCC REIT"). However, the Group exercises power by virtue of its control over KLCC REIT Management Sdn. Bhd., the manager of KLCC REIT. KLCC REIT units are stapled to the ordinary shares of KLCC Property Holdings Berhad ("KLCCP") such that the shareholders of KLCCP are exposed to variable returns from its involvement with KLCC REIT and the Group has the ability to affect those returns through its power over KLCC REIT. Consequently, KLCC REIT is regarded as a subsidiary of the Group.

* Subsidiaries held directly by the Company.
∞ Companies incorporated under the Labuan Companies Act 1990.
@ The shares of these subsidiaries are quoted on the Main Market of Bursa Malaysia Securities Berhad.
ß The Group does not hold any ownership interest in these funds. However, the Group has the rights to appoint and remove members of Board of Trustees, which is the decision making body of the funds and able to determine the manner in which balance of the funds, after fulfilment of certain obligation, should be distributed upon dissolution. Consequently, the funds is regarded as subsidiaries of the Group.

44. KEY ASSOCIATES AND ACTIVITIES

		Effective Percentage Holding 2017 %	Effective Percentage Holding 2016 %	Country of Incorporation	Principal Activities
	BASF PETRONAS Chemicals Sdn. Bhd.	**25.7**	25.7	Malaysia	Purchases propylene and n-butane feedstock from the Group for production, marketing and sale of acrylic, oxo and butanediol products
	Bintulu Port Holdings Berhad	**28.5**	28.5	Malaysia	Port management
	Cameroon Oil Transportation Company - S.A.	**29.8**	29.8	Republic of Cameroon	Pipeline operations
	El Behera Natural Gas Liquefaction Company S.A.E.	**35.5**	35.5	Egypt	Manufacturing and production of LNG for the purpose of export
#	Gas Malaysia Berhad	**9.0**	9.0	Malaysia	Selling, marketing, distribution and promotion of natural gas
	IDKU Natural Gas Liquefaction Company S.A.E.	**38.0**	38.0	Egypt	Manufacturing and production of LNG for the purpose of export
	Pacific North West LNG Ltd.	**62.0**	62.0	Canada	Overall management and control of the business and affairs of LNG Partnership
	Pacific North West LNG Limited Partnership	**62.0**	62.0	Canada	Evalution, engineering and final investment decision and eventual construction and operation of planned LNG factory
	Pacificlight Power Pte. Ltd.	**30.0**	30.0	Singapore	Build, own and operate power generation plant
	Tchad Oil Transportation Company - S.A.	**30.2**	30.2	Republic of Chad	Pipeline operations
	The Egyptian LNG Company S.A.E.	**35.5**	35.5	Egypt	Owning, managing and developing the land and the common facilities related to the Egyptian LNG facility
#	South Caucasus Pipeline Holding Company	**15.2**	15.2	Cayman Islands	Investment holding
#	South Caucasus Pipeline Company	**15.5**	15.5	Cayman Islands	Pipeline operations
#	Azerbaijan Gas Supply Company Ltd.	**12.4**	12.4	Cayman Islands	Marketing and selling of natural gas

Although the Group has less than 20% of the ownership in the equity interest of these associates, the Group has determined that it has significant influence over the financial and operating policy of the associate through representation on the said associate's board of directors.

Although the Group has 62% of the ownership in the equity interest of Pacific NorthWest LNG Ltd., the governing agreements and constitutive documents for this entity do not allow the Group to control this entity as voting requires unanimous approval of the shareholders or their representatives.

45. KEY JOINT VENTURES AND ACTIVITIES

	Effective Percentage Holding 2017 %	Effective Percentage Holding 2016 %	Country of Incorporation	Principal Activities
BP PETRONAS Acetyls Sdn. Bhd.	**19.3**	19.3	Malaysia	Manufacture, sell and distribute acetic acid
Dragon LNG Group Limited	**50.0**	50.0	United Kingdom	Operate LNG import and storage terminal
Trans Thai-Malaysia (Thailand) Ltd.	**50.0**	50.0	Thailand	Gas pipeline transportation and gas separation services
Trans Thai-Malaysia (Malaysia) Sdn. Bhd.	**50.0**	50.0	Malaysia	Transporting and delivering gas products
Indianoil PETRONAS Private Limited	**50.0**	50.0	India	Manufacture and bottling services of Liquid Petroleum Gas ("LPG")
Kimanis Power Sdn. Bhd.	**36.4**	36.4	Malaysia	Generation and sale of electricity
Taninthayi Pipeline Co. LLC	**40.9**	40.9	Cayman Islands	Transportation of gas
∞ Malaysia Deepwater Floating Terminal (Kikeh) Ltd.	**31.8**	31.8	Malaysia	Floating production storage and off-loading ("FPSO") owner
Guangxi Nanning Yuchai Lube Co., Ltd.	**50.0**	50.0	China	Manufacturing and marketing of lubricant products
Guangxi Beihai Yuchai High Quality Lube Co., Ltd.	**50.0**	50.0	China	Manufacturing and marketing of lubricant products
Pengerang Terminals (Two) Sdn. Bhd.	**40.0**	40.0	Malaysia	Undertake activities related to terminal storage facilities for petroleum and petrochemical products

∞ Companies incorporated under the Labuan Companies Act 1990.

46. IMPACT OF CHANGE IN ACCOUNTING POLICIES AND COMPARATIVES

Change in accounting policies

During the financial year, the Group has changed its accounting policies with respect to revenue reporting and inventory valuation for gas trading activities. Where forward and future sale and purchase contracts for gas have been determined to be for trading purposes, the associated sales and purchases are reported net within sales. Consequently, the associated inventories are stated at fair value less costs to sell and any changes in fair value are recognised in the profit or loss. The changes will provide more relevant information about the effects of transactions to the Group's financial position and financial performance.

The change in accounting policies have been made retrospectively and in accordance with MFRS 108 *Accounting Policies, Changes in Estimates and Errors*. The changes above did not have a significant impact on the Group's profit or loss and net assets of the previous years.

46. IMPACT OF CHANGE IN ACCOUNTING POLICIES AND COMPARATIVES (CONTINUED)

Change in accounting policies (continued)

Following the change in accounting policy as stated above and reclassification of certain comparative figures to comform with current year presentation certain comparatives have been restated as follows:

(i) Reconciliation of consolidated statement of financial position as at 31 December 2016.

Group *In RM Mil*	**As previously reported**	**Effect of change in accounting policies**	**As restated**
ASSETS			
TOTAL NON-CURRENT ASSETS	412,210	-	412,210
Trade and other inventories	13,764	155	13,919
Other current assets	177,318	-	177,318
TOTAL CURRENT ASSETS	191,082	155	191,237
TOTAL ASSETS	603,292	155	603,447
EQUITY			
Share capital	100	-	100
Retained Profits	308,173	155	308,328
Other Reserves	115,275	-	115,275
TOTAL EQUITY	423,548	155	423,703
TOTAL LIABILITIES	179,744	-	179,744
TOTAL EQUITY AND LIABILITIES	603,292	155	603,447

46. IMPACT OF CHANGE IN ACCOUNTING POLICIES AND COMPARATIVES (CONTINUED)

(ii) Reconciliation of consolidated statement of profit or loss and other comprehensive income for year ended 31 December 2016.

Group *In RM Mil*	**As previously reported**	**Effect of change in accounting policies**	**Classification**	**As restated**
Revenue	204,908	(9,847)	-	195,061
Cost of revenue	(147,198)	10,101	-	(137,097)
Gross profit	57,710	254	-	57,964
Selling and distribution expenses	(5,633)	-	-	(5,633)
Administration expenses	(20,143)	-	10,164	(9,979)
Net impairment losses	-	-	(10,164)	(10,164)
Other expenses	(3,913)	-	-	(3,913)
Other income	8,064	-	-	8,064
Operating profit	36,085	254	-	36,339
Financing costs	(3,294)	-	-	(3,294)
Share of profit after tax and non-controlling interests of equity accounted associates and joint ventures	865	-	-	865
Profit before taxation	33,656	254	-	33,910
Tax expense	(10,148)	-	-	(10,148)
Profit for the year	23,508	254	-	23,762

46. IMPACT OF CHANGE IN ACCOUNTING POLICIES AND COMPARATIVES (CONTINUED)

(iii) Reconciliation of consolidated statement of cash flows as at 31 December 2016.

Group *In RM Mil*	**As previously reported**	**Effect of change in accounting policies**	**As restated**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation	33,656	254	33,910
Adjustments for non-cash items	41,436	-	41,436
Operating profit before changes in working capital	75,092	254	75,346
Change in trade inventories	(926)	(254)	(1,180)
Other changes in working capital	(6,862)	-	(6,862)
Cash generated from operations	67,304	-	67,304
Net cash generated from operating activities	53,843	-	53,843
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	(40,880)	-	(40,880)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	(14,390)	-	(14,390)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,427)	-	(1,427)
DECREASE IN DEPOSITS RESTRICTED	12	-	12
NET FOREIGN EXCHANGE DIFFERENCES	2,185	-	2,185
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	120,021	-	120,021
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	120,791	-	120,791

46. IMPACT OF CHANGE IN ACCOUNTING POLICIES AND COMPARATIVES (CONTINUED)

(iv) Reconciliation of statement of cash flows as at 31 December 2016.

Company *In RM Mil*	**As previously reported**	**Classification**	**As restated**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation	34,681	-	34,681
Adjustments for non-cash items	(14,424)	-	(14,424)
Interest income	(5,904)	(2,689)	(8,593)
Operating profit before changes in working capital	14,353	(2,689)	11,664
Change in trade and other receivables	(1,585)	(1,366)	(2,951)
Other changes in working capital	2,017	-	2,017
Cash generated from operations	14,785	(4,055)	10,730
Interest income received	2,770	4,055	6,825
Interest expense paid	(1,424)	-	(1,424)
Taxation paid	(4,981)	-	(4,981)
Net cash generated from operating activities	11,150	-	11,150
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash used in investing activities	4,702	-	4,702
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash used in financing activities	(16,000)	-	(16,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(148)	-	(148)
NET FOREIGN EXCHANGE DIFFERENCES	814	-	814
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	67,760	-	67,760
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	68,426	-	68,426

INDEPENDENT AUDITORS' REPORT

to the members of Petroliam Nasional Berhad

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Petroliam Nasional Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 129 to 246.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

BASIS FOR OPINION

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE AND OTHER ETHICAL RESPONSIBILITIES

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Impairment of property, plant and equipment ("PPE") and intangible assets ("IA")	
Refer Note 3 and Note 10, respectively, to the Financial Statements	
The key audit matter	**How the matter was addressed in our audit**
The Group operates in the oil and gas sector which has been affected by the fluctuations in oil and gas prices. This gives rise to a risk that the carrying amounts of the Group's PPE and IA, especially in Upstream operating segment might exceed their recoverable amounts, and therefore the carrying amount needs to be impaired. The Group has estimated the recoverable amount for each cash generating unit ("CGU") by forecasting and discounting future cash flows relevant to the CGU. As a result, a net impairment write back of RM347 million (2016: net impairment losses of RM8,775 million) for PPE and net impairment losses of RM1,745 million (2016: net impairment losses of RM2,692 million) for IA (refer Note 27) was recognised in the current financial year. We have identified the carrying amount of the Group's PPE and IA of RM327,458 million (2016: RM333,977 million) (refer Note 3) and RM22,079 million (2016: RM25,552 million) (refer Note 10) respectively at 31 December 2017 as key audit matters because: • these are material to the consolidated financial statements which in aggregate represents 58% (2016: 60%) of Group's total assets; and • the estimation of recoverable amounts involved a significant degree of judgment exercised and assumptions made by the Group. Key judgmental aspects include assumptions of oil and gas prices, expenditures, production profile and the use of an appropriate discount rate.	Our audit procedures in addressing these key audit matters included, amongst others: i) We considered the appropriateness of Group's determination of CGUs based on our knowledge of the Group's business and its internal reporting. ii) We evaluated the following key assumptions used in the estimation of recoverable amounts, among others: • production profile - compared to the Group's approved petroleum resources report to assess whether the production profile is within the field/ reserve lives; • long term outlook of prices - compared to information published by external analysts; • expenditures - compared to information included in the Group's approved budget; and • discount rate - involved our valuation specialist in challenging the appropriateness of the discount rate used. iii) We have also considered the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment assessment is most sensitive. Based on the above procedures, the impairment of PPE and IA are appropriate.

KEY AUDIT MATTERS (CONTINUED)

Measurement of provision for decommissioning, dismantling, removal and restoration ("DDRR")	
Refer Note 24 to the Financial Statements	
The key audit matter	**How the matter was addressed in our audit**
The provision outstanding for DDRR of the Group and the Company amounts to RM18,935 million (2016: RM21,491 million) and RM12,299 million (2016: RM14,531 million) (refer Note 24) respectively as at the end of current financial year, which represents 19% (2016: 20%) and 23% (2016: 25%) of the Group's and the Company's non - current liabilities. The estimation of DDRR provision, especially for assets under Upstream operating segment ("Upstream assets"), involves significant degree of judgement, complex calculations and estimation uncertainty. Furthermore, DDRR activities of the Group and the Company especially on Upstream assets are rather preliminary in nature given that majority of the assets are still in production stage. As such, there is limited historical precedent which the Group and the Company can benchmark against to determine the expected future costs. These factors increase the degree of complexity and judgement in estimating the DDRR provision. The Group reviews the DDRR provision on an annual basis, of which key components include the interest rate, inflation rate and expected future costs.	Our audit procedures in addressing this key audit matter included, amongst others: i) We agreed the data used in the calculation of the DDRR provision to the originating source. ii) We evaluated the following key assumptions used in the DDRR provision calculation, among others: • interest and inflation rates - compared to information from external sources; and • expected future costs - compared to costs incurred on recent similar transactions. iii) We re-performed the calculation of the DDRR provision to determine mathematical accuracy. Based on the above procedures, the measurement of provision for DDRR of the Group and the Company are appropriate.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITORS' REPORT THEREON

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors are disclosed in Appendix I.

OTHER MATTER

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Petaling Jaya, Malaysia
27 February 2018

Abdullah Abu Samah
Approval Number: 2013/06/18(J)
Chartered Accountant

APPENDIX I

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS

KLCC (Holdings) Sdn. Bhd. and its subsidiaries:

• Putrajaya Homes Sdn. Bhd.	• Midciti Resources Sdn. Bhd.
• Convex Malaysia Sdn. Bhd.	• Rantau Land Sdn. Bhd.
• Gas District Cooling (M) Sdn. Bhd.	• Gagasan Ria Sdn. Bhd.
• Gilang Cendana Sdn. Bhd.	• Gas District Cooling (Putrajaya) Sdn. Bhd.
• Hasrat Intisari (M) Sdn. Bhd.	• Heritage Lane Sdn. Bhd.
• Putrajaya Bina Sdn. Bhd.	• Ilham Merpati Sdn. Bhd.
• Midciti Sukuk Berhad	• Idaman Putrajaya Sdn. Bhd.
• Kenyalang Murni Sdn. Bhd.	• Impian Moden Sdn. Bhd.
• KLCC Projeks Sdn. Bhd.	• Kelana Perkasa Sdn. Bhd.
• Rantau Properties Sdn. Bhd.	• Rantau Recreation Sdn. Bhd.
• KLCC Projeks Services Sdn. Bhd.	• KLCC Properties Sdn. Bhd.
• Kuala Lumpur City Park Berhad	• Komponen Abadi Sdn. Bhd.
• Layar Intan Sdn. Bhd.	• Rantau Homes Sdn. Bhd.
• KLCC Real Estate Investment Trust (@)	• Kuala Lumpur Convention Centre Sdn. Bhd.
• KLCC REIT Management Sdn. Bhd.	• Lembah Putrajaya Sdn. Bhd.
• Menara Putrajaya Sdn. Bhd.	• Metro Kemasik Sdn. Bhd.
• Purnama Sepi Sdn. Bhd.	• Pedoman Semarak Sdn. Bhd.
• Putrajaya Development Sdn. Bhd.	• Putrajaya Holdings Sdn. Bhd.
• Putrajaya Group Sdn. Bhd.	• Putrajaya Management Sdn. Bhd.
• Putrajaya Projects Sdn. Bhd.	• Putrajaya Properties Sdn. Bhd.
• Putrajaya Resources Sdn. Bhd.	• Putrajaya Ventures Sdn. Bhd.
• Senandung Asli Sdn. Bhd.	• Serba Harapan (M) Sdn. Bhd.
• Tapak Senja Sdn. Bhd.	• Gas District Cooling (Holdings) Sdn. Bhd.
• Gas District Cooling (KLIA) Sdn. Bhd.	• Gas District Cooling (UTP) Sdn. Bhd.
• Arah Moden Sdn. Bhd.	• Indah Putrajaya Sdn. Bhd.
• Quantum Panorama Sdn. Bhd.	• Suria KLCC Sdn. Bhd.
• Arena Johan Sdn. Bhd.	• Arena Merdu Sdn. Bhd.
• Asas Klasik Sdn. Bhd.	• Impian Cemerlang Sdn. Bhd.
• KLCC Parking Management Sdn. Bhd.	• KLCC Urusharta Sdn. Bhd.
• Kompleks Dayabumi Sdn. Bhd.	• KLCC Property Holdings Bhd. (@)

Marmel Incorporated and its subsidiaries:

• Darton Ltd.	• Darton U.S. Holdings, Inc.
• GCB Associates, LLC	• Grabhorn Properties, LLC
• Sparknight, LLC	• World Gateway Investments, Inc.
• Paterson, LLC	• World Gateway Property Owners Association
• WG Parcel B, LLC	

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS (CONTINUED)

MISC Berhad and its subsidiaries:

• AET Agencies Inc.	• AET Lightering Services LLC
• AET Inc. Limited	• AET Petroleum Tanker (M) Sdn. Bhd.
• AET Offshore Services Inc.	• AET Shipmanagement (Malaysia) Sdn. Bhd.
• Eaglestar Marine B.V.	• AET Tankers India Pte. Ltd.
• Eaglestar Shipmanagement (S) Pte. Ltd.	• AET UK Ltd.
• AET Tanker Holdings Sdn. Bhd.	• AET Tankers Pte. Ltd.
• Asia LNG Transport Sdn. Bhd.	• FPSO Ventures Sdn. Bhd.
• MISC Nigeria Ltd.	• Malaysia Marine and Heavy Engineering Sdn. Bhd.
• Malaysian Maritime Academy Sdn. Bhd.	• Atenea Services S.A.
• AET STS Limited Inc.	• AET Azerbaijan Limited
• MISC Offshore Floating Terminals Dua (L) Ltd.	• MISC Agencies Sdn. Bhd.
• Hendham Enterprises Ltd.	• MISC Enterprises Holdings Sdn. Bhd.
• Asia LNG Transport Dua Sdn. Bhd.	• Malaysia Offshore Mobile Production (Labuan) Ltd.
• MISC Agencies India Pvt. Ltd.	• MISC Offshore Floating Terminals (L) Ltd.
• MISC Berhad (UK) Ltd.	• MISC Tanker Holdings Sdn. Bhd.
• MISC Capital (L) Ltd.	• MMHE LNG Sdn. Bhd.
• AET Bermuda One Limited	• AET Sea Shuttle AS
• MISC Ferry Services Sdn. Bhd.	• Gas Asia Terminal (L) Pte. Ltd.
• MISC International (L) Ltd.	• MISC Tankers Sdn. Bhd.
• MISC Offshore Holdings (Brazil) Sdn. Bhd.	• Puteri Delima Sdn. Bhd.
• MISC Ship Management Sdn. Bhd.	• Puteri Firus Sdn. Bhd.
• Seri Cemara (L) Private Limited	• Puteri Intan Sdn. Bhd.
• Oldson Ventures Ltd.	• Puteri Mutiara Satu (L) Pte. Ltd.
• MISC Tanker Holdings (Bermuda) Limited	• Puteri Nilam Sdn. Bhd.
• MTTI Sdn. Bhd.	• Techno Indah Sdn. Bhd.
• Malaysia Marine and Heavy Engineering Holdings Berhad (@)	• MISC PNG Shipping Ltd.
• MISC do Brasil Servicos de Energia Ltd.	• AET MCV Delta Sdn. Bhd.
• Puteri Delima Satu (L) Pte. Ltd.	• AET MCV Beta L.L.C.
• Puteri Firus Satu (L) Pte. Ltd.	• AET MCV Alpha Pte. Ltd.
• Puteri Intan Satu (L) Pte. Ltd.	• AET Brasil Servicos STS Ltda.
• Puteri Nilam Satu (L) Pte. Ltd.	• GK O & M (L) Limited
• Puteri Zamrud Satu (L) Pte. Ltd.	• MISC Agencies (Japan) Ltd.
• Puteri Zamrud Sdn. Bhd.	• MISC Maritime Services Sdn. Bhd.
• AET Tankers Kazakhstan LLP	• Sungai Udang Port Sdn. Bhd.
• AET Shipmanagement (USA) LLC	• AET Tanker Kazakhtan LLP
• AET Tankers (Suezmax) Pte. Ltd.	• MISC Agencies (Netherlands) B.V.
• AET Shuttle Tankers Sdn. Bhd.	• AET Singapore One Pte. Ltd.
• AET MCV Alpha L.L.C.	• Zangwill Business Corp.
• AET MCV Gamma L.L.C.	• Seri Camar (L) Private Limited
• AET Brasil Servicos Maritamos Ltda.	• MMHE International Sdn. Bhd.
• AET MCV Beta Pte. Ltd.	• MMHE EPIC Marine & Services Sdn. Bhd.
• AET Holdings (L) Pte. Ltd.	• Thailand Offshore Floating Terminals (L) Ltd.
• Seri Camellia (L) Private Limited	• Gumusut-Kakap Semi-Floating Production System (L) Limited
• Seri Cempaka (L) Private Limited	• Paramount Tankers Corporation
• Seri Cenderawasih (L) Private Limited	• Odley Worldwide Inc

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS (CONTINUED)

MISC Berhad and its subsidiaries (continued):

• AMI Manning Services Private Limited	• Eaglestar Marine Holdings (L) Pte. Ltd.
• AET Product Tankers Sdn. Bhd.	• Eaglestar Shipmanagement (L) Pte. Ltd.
• Twyford International Business Corp.	• Eaglestar Marine (S) Pte. Ltd.

PETRONAS Carigali Sdn. Bhd. and its subsidiaries:

• E&P Venture Solutions Co. Sdn. Bhd.	• E&P Malaysia Venture Sdn. Bhd.
• PC JDA Ltd.	• PC Lampung II Ltd.
• PC (SE Palung Aru) Ltd.	• PC Randugunting Ltd.
• PETRONAS Carigali (Australia) Pty. Ltd.	• PC Mozambique (Rovuma Basin) Ltd.
• PETRONAS Carigali (Oman) Ltd.	• PETRONAS Carigali Overseas Sdn. Bhd.
• PETRONAS Carigali (Ketapang) Ltd.	• PETRONAS Carigali (Karapan) Ltd.
• PETRONAS Carigali (Surumana) Ltd.	• PC Ketapang II Ltd.
• E&P O&M Services Sdn. Bhd.	• PETRONAS Carigali Nigeria Limited
• Vestigo Petroleum Sdn. Bhd.	• PETRONAS Carigali Mozambique E&P Ltd.
• PC Algeria Ltd. (µ)	• PETRONAS Carigali (West Glagah Kambuna) Ltd.
• PETRONAS Carigali White Nile (5B) Ltd.	

PETRONAS Lubricants International Sdn. Bhd.'s subsidiaries:

• PETRONAS Lubricants Italy S.p.A (ã)	• PETRONAS Lubricants Portugal Lda (ã)
• PETRONAS Lubricants Africa Ltd. (ã)	• PLI (Netherlands) B.V. (ã)
• PETRONAS Lubrificantes Brasil S.A. (ã)	• PETRONAS Lubricants China Company Limited (ã)
• PETRONAS Lubricants France S.a.s. (ã)	• PETRONAS Lubricants Poland Sp. Zo.o (ã)
• PT PLI Indonesia	• PETRONAS Lubricants Argentina S.A. (ã)
• PETRONAS Lubricants Netherlands B.V. (ã)	• PETRONAS Lubricants Great Britain LTD (ã)
• PETRONAS Lubricants Belgium N.V. (ã)	• PETRONAS Lubricants Deutschland Gmbh (ã)
• PLAL Egypt LLC	• PETRONAS Marketing China Company Limited (ã)
• PETRONAS Madeni Yaglar TIC LTD STI (ã)	• PETRONAS Lubricants (India) Private Limited (µ)
• PETRONAS Lubricants Spain S.L.U. (ã)	• PETRONAS Lubricants Shandong Company Limited (ã)
• Arexons Srl. (ã)	• PL Russia LLC

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS (CONTINUED)

PETRONAS International Corporation Ltd. and its subsidiaries:

• PETRONAS Carigali Brunei Co. Ltd.	• PETRONAS Carigali International Sdn. Bhd.
• Labuan Energy Corporation Limited	• Petroliam Manpower Services Mexico S.A. De C.V.
• PETRONAS Suriname E&P B.V.	• LNG Investments Europe Limited
• PAPL (Upstream) Pty Ltd.	• PC Carigali Mexico Operations S.A. de C.V.
• PC North Madura II Ltd	• Petronas Carigali (Urga) Operating Company LLC
• PC Muriah Ltd.	• PC Mauritania 1 Pty. Ltd. (ã)
• PC Myanmar (Hong Kong) Limited	• PC Mauritania II B.Y. (ã)
• PAPL Services Pty Limited	• PETRONAS LNG Ltd.
• PAPL (Upstream II) Pty Ltd.	• MITCO Labuan Co. Limited
• PSE Kinsale Energy Limited	• Myanmar PETRONAS Trading Co. Ltd.
• PETRONAS Energy Trading Limited	• LEC Ireland Employment Ltd.
• PETRONAS Carigali Myanmar Inc.	• Nada Properties Company Ltd.
• PETRONAS Carigali Nile Ltd.	• Natuna 1 B.V.
• PC Carigali Mexico Oil and Gas Holding S.A. de C.V.	• PC Gabon Upstream S.A
• PETRONAS Carigali (Chad EP) Inc.	• PETRONAS LNG (UK) Limited
• PETRONAS Carigali Myanmar III Inc.	• Parsi International Ltd.
• PETRONAS Philippines Inc. (ã) (μ)	• PC Madura Ltd.
• PETRONAS Carigali (Urga) Ltd.	• PAPL (Downstream) Pty Ltd.
• Doba Pipeline Investment Inc.	• PC (Myanmar) Holdings Limited (μ)
• Argentinean Pipeline Holding Company S.A.(ã) (μ)	• PC Vietnam Ltd.
• PETRONAS Thailand Co. Ltd. (ã)	• PETRONAS Angola E&P Ltd.
• PETRONAS International Power Corporation BV (ã)	• PETRONAS Australia Pty. Ltd.
• Japan Malaysia LNG Co. Ltd.	• PETRONAS Carigali (Jabung) Ltd.
• PICL Siri Company Limited (ã)	• PETRONAS Carigali (Turkmenistan) Sdn. Bhd.
• PETRONAS LNG Sdn. Bhd.	• PETRONAS Carigali (Urga) Operating Company LLC (μ)
• PETRONAS Carigali Canada B.V.	• PC Kuala Kurun Ltd
• Humbly Grove Energy Services Ltd	• PETRONAS (E&P) Overseas Ventures Sdn. Bhd.
• PETRONAS Carigali International E&P B.V.	• PETRONAS Brasil E&P Limitada
• PETRONAS Carigali Iraq (Badra) Ltd.	• PC Sakakemang Ltd.
• PETRONAS Carigali Iraq (Majnoon) Ltd.	• Progress Energy Canada Ltd. (ã)
• PICL (Egypt) Corporation Ltd.	• PETRONAS Myanmar Limited
• PSE Ireland Limited	• PETRONAS China Energy Ltd.
• PSE Seven Head Limited	• PETRONAS Azerbaijan Upstream Sdn. Bhd.
• Humbly Grove Energy Ltd.	• PETRONAS South Caucasus S.a.r.l.
• Gas Storage Limited	• PETRONAS Azerbaijan Shah Deniz S.a.r.l.
• PNW LNG Marketing Sdn. Bhd.	• PETRONAS Energy (India) Private Limited
• PETRONAS E&P Argentina S.A.	• PETRONAS Carigali Iraq (Halfaya) Ltd.
• Sirri International Ltd.	• PETRONAS Iraq Garraf Ltd.
• Overseas Gas Storage Limited	• PETRONAS International Power Corporation (Mauritius) Ltd.(ã)
• PETRONAS Chad Marketing Inc.	• Petronas Carigali (Urga) Ltd.
• PETRONAS Carigali Chad Exploration & Production Inc.	• PICL Marketing Thailand Ltd.
• PETRONAS Carigali Iraq Holding B.V.	

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS (CONTINUED)

PETRONAS Marketing International Sdn. Bhd. and its subsidiaries (continued):

• Azania Petroleum (Pty.) Ltd.	• Trek Petroleum (Pty.) Ltd.
• Citycat Properties (Pty.) Ltd.	• Engen Oil Lesotho (Pty.) Ltd.
• Chemico (Pty.) Ltd.	• Societe de Transport Mace SA
• Petroleum Investment Holding Ltd.	• South African Oil Refinery (Pty.) Ltd.
• Engen DRC SARL	• Engen Marketing Tanzania Ltd.
• Engen Gabon S.A.	• Pakenzyl (Pty.) Ltd.
• Engen Group Funding Trust	• Engen Company (Mauritius) Ltd.
• Engen Holdings (Ghana) Ltd.	• Engen Botswana Limited (ß)
• Engen International Holdings (Mauritius) Ltd.	• Engen Ghana Ltd.
• Engen Oil Zimbabwe (PVT) Ltd.	• Engen Holdings (Pty.) Ltd.
• Engen Lesotho (Pty.) Ltd.	• Engen Holdings Zimbabwe (PVT) Ltd.
• Engen Marketing Botswana (Pty.) Ltd.	• Engen Kenya Ltd.
• Engen (Nigeria) Ltd. (ã)	• Engen Limited
• Valais Investments (Pty.) Ltd.	• Engen Marketing Ltd.
• Engen Swaziland (Pty.) Ltd.	• SEP Burundi
• Engen Rwanda Ltd.	• Engen Namibia (Pty.) Ltd.
• Engen Petroleum Zimbabwe (PVT) Ltd.	• Engen Producing (Nigeria) Ltd. (ã)
• Engen Petroleum (Mozambique) Ltd.	• Engen Oil Tanking Ltd.
• Engen Petroleum Zambia Ltd.	• Engen Petroleum (Burundi) Ltd.
• Enpet Insurance Ltd.	• Engen Petroleum (DRC) Ltd.
• Engen Petroleum (Mauritius) Ltd.	• Renaissance Petroleum (Pty.) Ltd.
• Engen Properties (Pty.) Ltd.	• Engen Petroleum Tanzania Ltd.
• Imtrasel (Pty.) Ltd.	• Enpet Africa Insurance Ltd.
• Engen Reunion SA	• Kabuye Depot Holding Company Rwanda Ltd.
• Engen Ltd. (Malawi)	• Zenex Oil (Pty.) Ltd.

PETRONAS Assets Sdn. Bhd. and its subsidiaries:

• PETRONAS ICT Sdn. Bhd.	• Petrofibre Network (M) Sdn. Bhd.
• Virtus iP Sdn. Bhd.	

PETRONAS Hartabina Sdn. Bhd. and its subsidiary:

• Prince Court Medical Centre Sdn. Bhd.

PETRONAS Trading Corporation Sdn. Bhd.'s subsidiaries:

• PETCO Trading (UK) Limited (ã)	• PETCO Trading DMCC (ã)
• PT PETRONAS Niaga Indonesia	

PETRONAS Technical Services Sdn. Bhd.'s subsidiary:

• PTSSB DMCC

SUBSIDIARIES AUDITED BY OTHER FIRMS OF ACCOUNTANTS (CONTINUED)

PETRONAS Chemicals Group Berhad's subsidiaries:

• Kertih Port Sdn. Bhd. (µ)	• PETRONAS Chemicals Fertiliser (Kedah) Sdn. Bhd. (µ)
• PCM (Thailand) Company Limited (µ)	• PETRONAS Chemicals Derivatives Sdn. Bhd. (µ)
• PETRONAS Chemicals Ammonia Sdn. Bhd. (µ)	• PETRONAS Chemicals Olefins Sdn. Bhd. (µ)
• PETRONAS Chemicals Glycols Sdn. Bhd. (µ)	• PCM Chemical India Private Limited
• Vinyl Chloride (Malaysia) Sdn. Bhd. (µ)	• PT PCM Kimia Indonesia
• PETRONAS Chemicals LDPE Sdn. Bhd. (µ)	

Subsidiaries held directly by the Company:

• Energas Insurance (L) Limited	• Institute of Technology PETRONAS Sdn. Bhd.
• PETRONAS NGV Sdn. Bhd.	• PETRONAS e-Learning Solutions Sdn. Bhd.
• PETRONAS Management Training Sdn. Bhd.	• PETRONAS Technical Training Sdn. Bhd.
• PETRONAS Capital Limited	

ã Audited by affiliates of KPMG.
@ The shares of this subsidiary are quoted on the Main Market of Bursa Malaysia Securities Berhad.
µ Consolidated based on management financial statements.
ß The shares of this subsidiary are quoted on the Botswana Stock Exchange.

GLOSSARY

INDUSTRY TERMS AS GENERALLY UNDERSTOOD

A

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

B

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

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

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

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

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

C

CO_2
Carbon dioxide, one of the primary greenhouse gases. Coal Bed Methane A form of natural gas extracted from coal beds, as opposed to the conventional natural gas found in reservoirs.

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

D

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

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

D

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

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

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

E

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)
Profit before taxation and non-controlling interests with the addition of amounts previously deducted for depreciation, amortisation and net impairment loss on property, plant and equipment and intangible assets and financing costs and the exclusion of interest income.

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

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

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

F

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

F

Field
A geographical area overlying a hydrocarbon reservoir.

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

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

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

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

G

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

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

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

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

H

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

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

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

I

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

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

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

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

J

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

L

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

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

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

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

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

M

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

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

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

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

N

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

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

O

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

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

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

P

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

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

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

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

R

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

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

R

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

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

Renewable Energy
Energy derived from natural sources that are replaceable.

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

Reservoir
Any porous and permeable rock (usually sandstone or limestone/chalk and occasionally a normally impermeable rock which has been heavily fractured), thus providing interconnecting spaces through which oil/gas can flow.

Resources
Resources are defined as the total estimated quantities of petroleum at a specific date to be contained in, or that have been produced from known accumulations of hydrocarbon.

Resource Replenishment Ratio
Figures reported are calculated based on a formula of (Difference of Resource Base of current year and previous year + Production Volume of previous year)/(Production Volume of previous year).

Risk Service Contract (RSC)
In the context of this report, RSC refers to a petroleum arrangement between PETRONAS and any other company for the appraisal, development and/or production of petroleum in a contract area on behalf of PETRONAS whereby the PA Contractors are remunerated based on achieved Key Performance Indicators consisting of the agreed Cost, Schedule and Production level.

S

Seismic Data
The collection of stratigraphic data obtained by creating shockwaves through the rock layers. Reflection of these waves from anomalies within the rock layers are electronically recorded at surface. These recordings are then analysed to produce a stratigraphic representation of the surveyed area, which helps to deduce the structure of the underlying rock layers.

Shale Gas
Natural gas found in shale rock derived from underground shale deposits that are broken up by hydraulic fracturing. The process is needed to produce gas in commercial quantities as shale has low matrix permeability.

T

Throughput
The amount of output produced by a system, e.g. a refinery, plant, or pipeline, in a given period of time.

Total Recordable Case (TRC)
The sum of injuries resulting in fatalities, permanent total disabilities, permanent partial disabilities, lost work day cases, restricted work cases and medical treatment cases, but excluding first aid cases.

Total Recordable Case Frequency (TRCF)
This refers to the number of total recordable cases per million exposure hours worked during the period.

U

Unconventional Oil and Gas
Oil and gas that cannot be produced or extracted using conventional methods.

Upstream
The segment of value chain pertaining to finding, developing and producing crude oil and natural gas. These include oil and gas exploration, development and production operations; also known as Exploration & Production (E&P).

W

WTI Price
Stands for West Texas Intermediate, the benchmark crude oil price in the US measured in USD per barrel, which refers to a type of high quality light crude oil.

This page has been intentionally left blank.

www.petronas.com

www.petronasofficial.com Petroliam Nasional Berhad (PETRONAS)

PETRONASOfficial PETRONAS @petronas @petronasofficial

Petroliam Nasional Berhad (PETRONAS) (20076-K)

Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre
50088 Kuala Lumpur, Malaysia