



PETROLIAM NASIONAL BERHAD (PETRONAS)

ANNUAL REPORT 2016

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

PETROLIAM NASIONAL BERHAD (PETRONAS)
ANNUAL REPORT 2016



COVER RATIONALE



Clean in its approach, this cover has depth in its messaging. The outer die-cut is a silhouette depicting action and resolve. This layer in itself shows movement, process and ambition. When you lift the cover, you are greeted by a sense of calm, amidst the intensity of our operations. It symbolises the unwavering focus on our ambition, despite the chaotic changes in the oil and gas industry.

CONTENTS

- 2 Who We Are
- 6 Group Corporate Structure
- 8 About This Report

SEC — STRATEGIC REPORTS

- 12 Letter from the Chairman
- 16 Letter from the President and Group Chief Executive Officer
- 20 Letter from the Group Chief Financial Officer
- 29 Upstream
- 32 Downstream
- 35 Our Market in 2016
- 36 Our Strategic Focus
- 38 Group Organisation Structure
- 40 Our Advanced Capability
- 44 The Market in 2017

01

SEC — OUR COMMITMENT TO SUSTAINABILITY

- 47 Investing in People to Build a Better Tomorrow
- 49 Corporate Social Investment
- 58 Upholding Health, Safety, Security and Environment

02

SEC — OUR AWARDS AND HIGHLIGHTS

- 65 Awards and Recognitions
- 67 Significant Events in 2016
- 75 Media Highlights

03

SEC — GOVERNANCE

- 80 Board of Directors
- 90 Executive Leadership Team
- 93 Statement of Corporate Governance
- 103 Statement on Risk Management and Internal Control

04

SEC — FINANCIAL STATEMENTS

- 115 Directors' Report
- 120 Statement by Directors
- 121 Statutory Declaration
- 122 Consolidated Statement of Financial Position
- 123 Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 124 Consolidated Statement of Changes in Equity
- 128 Consolidated Statement of Cash Flows
- 130 Statement of Financial Position
- 131 Statement of Profit or Loss and Other Comprehensive Income
- 132 Statement of Changes in Equity
- 133 Statement of Cash Flows
- 134 Notes to the Financial Statements
- 249 Glossary

05

WHO WE ARE

PETRONAS AT A GLANCE

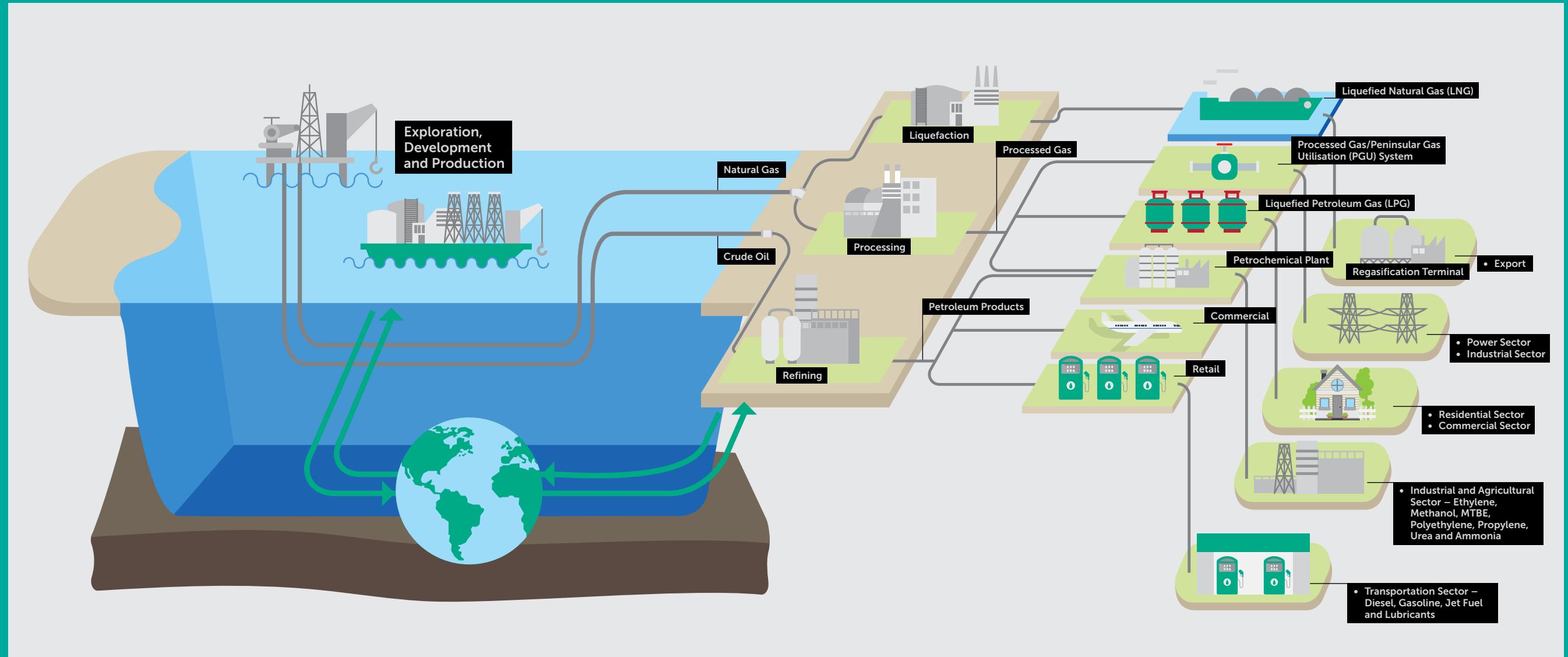
Petroliam Nasional Berhad (PETRONAS) is one of the few national oil companies in the world that has transformed itself into being a leading oil and gas multinational of choice and is now ranked amongst the largest corporations on FORTUNE Global 500®.

Since our establishment in 1974, we have not stopped pursuing new solutions and pushing boundaries across the entire oil and gas value chain. We continue to strengthen our portfolio through technological advancements, operational excellence and by being a responsible corporate citizen wherever we are.

Unlocking potentials and adding value to oil and gas resources are what our diverse, resilient and competent workforce strives to deliver each day.

This is because we continue to be inspired to meet the world's growing energy needs.

WHO WE ARE



UPSTREAM

See Upstream page 29.

TOTAL LNG SALES VOLUME OF
30.11
MILLION METRIC TONNES

AVERAGE PRODUCTION
2,363 kboe/d

420 BCE LNG LOADABLE

DELIVERED FROM PETRONAS LNG COMPLEX IN BINTULU

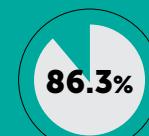
4

EXPLORATION DISCOVERIES

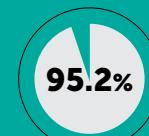
DOWNSTREAM

See Downstream page 32.

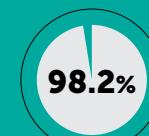
Downstream Plant Utilisation



Overall Equipment Effectiveness (OEE)



Downstream Reliability



Pengerang Integrated Complex Completion



ENGEN RECORDED HIGHEST REPLACEMENT PROFIT AFTER TAX (PAT) OF ZAR **3.1** BILLION

PETRONAS DAGANGAN BERHAD RECORDED HIGHEST RETAIL VOLUME FOR PETROL OF 15.2 BILLION LITRES AND PROFIT BEFORE TAX (PBT) OF RM1.2 BILLION

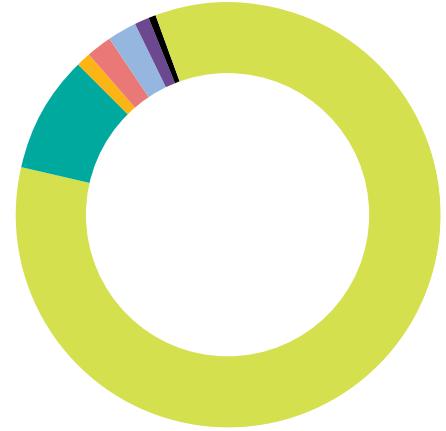
EXPANDED AVAILABILITY OF THE NEW **PETRONAS DYNAMIC DIESEL EURO 5** ACROSS PENINSULAR MALAYSIA

SABAH AMMONIA UREA (SAMUR) SUCCESSFULLY PRODUCED ON-SPECIFICATION UREA AND IN THE PROCESS OF RAMPING UP FOR FULL COMMERCIAL OPERATIONS IN 2017

3-TIME CONSECUTIVE WORLD CONSTRUCTORS' CHAMPION IN FORMULA ONE

WHO WE ARE

OUR WORKFORCE



PETRONAS Employees by Region

Africa	9.1%
Asia	84.6%
Australia & New Zealand	0.1%
Commonwealth of Independent States	1.1%
Europe	2.2%
Middle East	1.9%
North & South America	1.0%

Total Employees **51,034**

Inside Malaysia 84.0%
Outside Malaysia 16.0%

Legends

- UPSTREAM
- DOWNSTREAM
- PROJECT DELIVERY & TECHNOLOGY



NORTH AMERICA

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

DOWNSTREAM • Canada – Lubricants • Guatemala – Lubricants
• Mexico – Lubricants • Panama – Lubricants • Dominican Republic – Lubricants • United States of America – Petrochemicals, Lubricants

WHO WE ARE

EUROPE

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

DOWNSTREAM • Albania – Lubricants • Austria – Lubricants • Belgium – Lubricants • Bosnia – Lubricants • Bulgaria – Lubricants • Croatia – Lubricants • Czech Republic – Lubricants • Denmark – Lubricants • Estonia – Lubricants • Finland – Lubricants • France – Lubricants • Georgia – Lubricants • Germany – Lubricants • Great Britain – Lubricants • Greece – Lubricants • Hungary – Lubricants • Iceland – Lubricants • Italy – Lubricants • Kosovo – Lubricants • Latvia – Lubricants • Liechtenstein – Lubricants • Lithuania – Lubricants • Macedonia – Lubricants • Malta – Lubricants • Martinique – Lubricants • Moldova – Lubricants • Montenegro – Lubricants • Norway – Lubricants • Poland – Lubricants • Portugal – Lubricants • Romania – Lubricants • Russia – Lubricants • San Marino – Lubricants • Serbia – Lubricants • Slovakia – Lubricants • Slovenia – Lubricants • Spain – Lubricants • Sweden – Lubricants • Switzerland – Lubricants • Ukraine – Lubricants • Vatican City – Lubricants

PROJECT DELIVERY & TECHNOLOGY • Italy • Spain • United Kingdom



CENTRAL ASIA

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

DOWNSTREAM • Azerbaijan – Lubricants
• Kazakhstan – Lubricants • Kyrgyzstan – Lubricants
• Turkmenistan – Lubricants
• Turkey – Lubricants • Uzbekistan – Lubricants

PROJECT DELIVERY & TECHNOLOGY • Azerbaijan • Turkmenistan

MIDDLE EAST

UPSTREAM • Iraq – Development & Production

DOWNSTREAM • Bahrain – Lubricants
• Cyprus – Lubricants • Egypt – Lubricants
• Iraq – Lubricants • Jordan – Lubricants
• Kuwait – Lubricants • Lebanon – Lubricants
• Oman – Lubricants
• Qatar – Lubricants • Saudi Arabia – Lubricants
• Syria – Lubricants
• United Arab Emirates – Lubricants

PROJECT DELIVERY & TECHNOLOGY • Iraq • United Arab Emirates

AFRICA

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

DOWNSTREAM • Algeria – Lubricants • Angola – Lubricants • Botswana – Retail, Lubricants • Burundi – Retail, Lubricants • Cameroon – Lubricants • Democratic Republic of the Congo – Retail, Lubricants • Gabon – Retail, Lubricants • Ghana – Retail, Lubricants • Guinea Bissau – Lubricants • Guinea Konakri – Lubricants • Ivory Coast – Lubricants • Kenya – Retail, Lubricants • Lesotho – Retail • Libya – Lubricants • Madagascar – Lubricants • Malawi – Retail, Lubricants • Mauritania – Lubricants • Mauritius – Retail, Lubricants • Morocco – Lubricants • Mozambique – Retail, Lubricants • Namibia – Retail, Lubricants • Reunion – Retail, Lubricants • Rwanda – Retail, Lubricants • Senegal – Lubricants • South Africa – Refinery, Retail, Lubricants • Swaziland – Retail • Tanzania – Retail, Lubricants • Togo – Lubricants • Tunisia – Lubricants • Zambia – Retail, Lubricants • Zimbabwe – Retail, Lubricants

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

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
• Brunei – Lubricants • Cambodia – Lubricants • China – Petrochemicals, Lubricants
• Hong Kong – Lubricants • India – Petrochemicals, Lubricants • Indonesia – Petrochemicals, Lubricants • Japan – Petrochemicals, Lubricants • Laos – Lubricants
• Malaysia – Petrochemicals, Retail, Refinery, Lubricants • Myanmar – Lubricants
• Nepal – Lubricants • New Zealand – Petrochemicals, Lubricants • Pakistan – Lubricants • Papua New Guinea – Lubricants • Philippines – Petrochemicals, Lubricants • Singapore – Petrochemicals, Lubricants • South Korea – Petrochemicals, Lubricants • Taiwan – Petrochemicals, Lubricants • Thailand – Petrochemicals, Lubricants • Timor Leste – Lubricants • Vietnam – Petrochemicals, Lubricants

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

GROUP CORPORATE STRUCTURE

WHOLLY-OWNED SUBSIDIARIES (89)

PETRONAS GROUP OF COMPANIES

PETRONAS Carigali Sdn Bhd

PETRONAS Carigali Chad Exploration & Production Inc
PETRONAS Carigali Overseas Sdn Bhd
PETRONAS Iraq Garraf Ltd
PETRONAS Carigali Iraq Holding BV
E&P Venture Solutions Co. Sdn Bhd
E&P Malaysia Venture Sdn Bhd
Vestigo Petroleum Sdn Bhd

PETRONAS Trading Corporation Sdn Bhd

PETCO Trading (UK) Limited
PETCO Trading Labuan Company Ltd
PETCO Trading DMCC
PETRONAS (Thailand) Co. Ltd
PICL Marketing Thailand Ltd

PETRONAS Technical Services Sdn Bhd

PTSSB DMCC
PETRONAS Technology Ventures Sdn Bhd
PETRONAS Global Technical Solutions Sdn Bhd

OGP Technical Services Sdn Bhd

KLCC (Holdings) Sdn Bhd

PETRONAS International Corporation Ltd

SIRRI International Ltd
PETRONAS Carigali Myanmar Inc
PETRONAS Carigali (Turkmenistan) Sdn Bhd
PC JDA Limited
MITCO Labuan Co. Ltd
PETRONAS Carigali Nile Ltd
PETRONAS Marketing Sudan Ltd
PT. PETRONAS Niaga Indonesia
PICL (Egypt) Corporation Limited
Nada Properties Ltd
PC Madura Ltd
PC Muriah Ltd

PARTLY-OWNED SUBSIDIARIES (38)

GROUP CORPORATE STRUCTURE

PARTLY-OWNED SUBSIDIARIES (38)

*MISC Berhad (62.67%)

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

*PETRONAS Chemicals Group Bhd (64.35%)

PETRONAS Chemicals Marketing Sdn Bhd (100%)
PETRONAS Chemicals Derivatives Sdn Bhd (100%)
PETRONAS Chemicals Polyethylene Sdn Bhd (100%)
Vinyl Chloride (Malaysia) Sdn Bhd (100%)
PETRONAS Chemicals Methanol Sdn Bhd (100%)
PETRONAS Chemicals Glycols Sdn Bhd (100%)
PETRONAS Chemicals Ammonia Sdn Bhd (100%)
Polypropylene Malaysia Sdn Bhd (100%)
Kertih Port Sdn Bhd (100%)
PETRONAS Chemicals Fertiliser Kedah Sdn Bhd (100%)
PETRONAS Chemicals Fertiliser Sabah Sdn Bhd (100%)
PETRONAS Chemicals MTBE Sdn Bhd (100%)
PRPC Polymers Sdn Bhd (100%)
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 (63.44%)

ASSOCIATE COMPANIES (20)

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

BASF PETRONAS Chemicals Sdn Bhd (40%)
Kertih Terminals Sdn Bhd (40%)
Idemitsu SM (Malaysia) Sdn Bhd (30%)
BP PETRONAS Acetils Sdn Bhd (30%)
PCM Chemical India Private Limited (00.1%)

IndianOil PETRONAS Pvt Ltd (50%)
Trans Thai-Malaysia (Thailand) Ltd (50%)
Trans Thai-Malaysia (Malaysia) Sdn Bhd (50%)
*Bintulu Port Holdings Berhad (28.52%)

Centroid Technical Services Co. Ltd (40%)

Transasia Pipeline Company Pvt Ltd (35%)
Dragon LNG Group Ltd (50%)

*KLCC Property Holdings Berhad (75.46%)

Engen Limited (80%)

*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%)
Industrial Gases Solution Sdn Bhd (50%)

*PETRONAS Dagangan Bhd (69.88%)

PETRONAS Lubricants Marketing (Malaysia) Sdn Bhd (100%)
PETRONAS Aviation Sdn Bhd (100%)
PDB (Netherlands) BV (100%)
Kuala Lumpur Aviation Fuelling System Sdn Bhd (65%)

IOT Management Sdn Bhd (20%)
Tanjung Manis Oil Terminal Management Sdn Bhd (20%)
PS Pipeline Sendirian Berhad (50%)
PS Terminal Sendirian Berhad (50%)

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 2016, comply with the International Financial Reporting Standards (IFRS) valid at the closing date and with the provisions of the Malaysian Financial Reporting Standards (MFRS). The Statement of Corporate Governance and the Statement on Risk Management and Internal Control are guided by the recommendations of the Malaysian Code of Corporate Governance 2012 (MCCG 2012). Our reporting is also aligned with international guidelines and recommendations.

At PETRONAS, we see reporting as an ongoing, 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 2016 is available in both print and online versions.

ONLINE VERSION



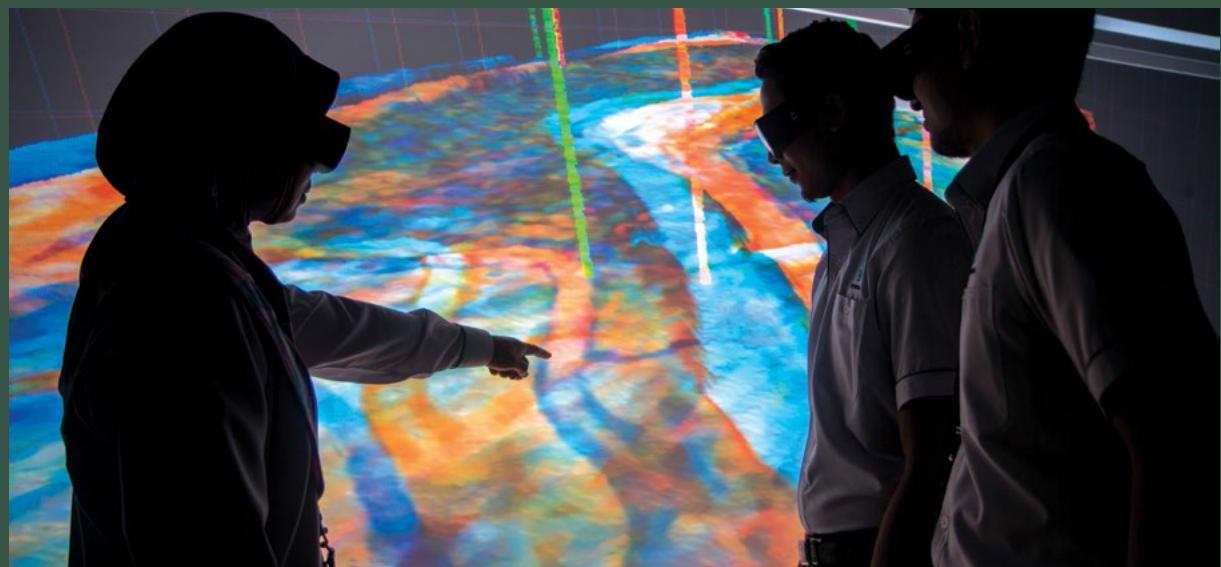
The online version of the PETRONAS Annual Report 2016 can be found at
<http://www.petronas.com.my/investor-relations/Pages/AnnualRepTimeline.aspx>

Section One

STRATEGIC REPORTS

CONTENTS

- 12 Letter from the Chairman
- 16 Letter from the President and Group Chief Executive Officer
- 20 Letter from the Group Chief Financial Officer
- 29 Upstream
- 32 Downstream
- 35 Our Market in 2016
- 36 Our Strategic Focus
- 38 Group Organisation Structure
- 40 Our Advanced Capability
- 44 The Market in 2017



UNLOCKING NEW OPPORTUNITIES

Through strategic research and development (R&D) activities in highly specialised areas, we pursue technologies with keen foresight, unlocking new opportunities in areas that were once inaccessible.

Today, we have acquired the ability to identify and unlock new opportunities in new basins. Our algorithm knowledge and capabilities in Geoimaging made new forays in seeing better than others. The technology enables greater accuracy in identifying resources without having to shut down production wells.

Technology has also enabled us to bring back to life and increase resource recovery rate in fields that were considered depleted. We are spearheading innovations in Enhanced Oil Recovery (EOR) technology, with the first deployment of EOR – Water Alternating Gas (WAG) production in 2014. We have raised the bar once again by extending field life and improving oil recovery, this time with Gravity Assisted Simultaneous Water Alternating Gas (GASWAG) EOR.

Sustainability remains one of the key focus areas in all of PETRONAS' operations. We continuously strive to reduce CO₂ emissions through CO₂ Storage Studies and CO₂ Utilisation R&D programmes, in line with international environmental standards and regulations.

Through our wide-ranging operations, we have built an extensive engineering solution suite that optimises life-cycle cost, safety assurance and enhances asset integrity in our capital projects.

With these and many more exciting technologies continuing to unfold, PETRONAS' move into the future has elevated our human capital capabilities to new heights, geared to unlock more opportunities once considered impossible.

Petroliam Nasional Berhad
(PETRONAS)

OUR PROFILE

[CLICK HERE](#)

CONTENTS

- 02 Key Facts
- 06 Vision, Mission and Shared Values
- 07 Our Profile
- 20 Corporate Milestones





TAN SRI MOHD SIDEK HASSAN

Chairman

LETTER FROM THE CHAIRMAN

Dear Stakeholders,

I write with deep appreciation and pride in PETRONAS, an extraordinary company with an exceptional legacy, heritage and vision. Despite the profound political and economic vagaries around the world in 2016, we were steadfast in our commitment to our clients, communities and the countries we served and operated in. Our continued dedication is a function of our people, systems and processes, the quality of our services and products, as well as the unwavering support of our stakeholders.



A MOMENT OF REFLECTION

Having emerged from one of the most tumultuous times in the recent history of oil and gas, it is only wise that we take a step back to reflect on last year. Not only on what we have achieved thus far, but more importantly on the valuable lessons and insights that only these rare, defining moments have to offer. Guided by the Board of Directors and Executive Leadership Team (ELT) who have taken to heart Winston Churchill's words, "Never let a good crisis go to waste", PETRONAS has leveraged on this crisis well.

In the last two years, PETRONAS embarked on a transformation journey to ensure its resilience and long-term sustainability. One of the most profound intuitions for PETRONAS is having clarity and focus in all that we do. This journey has enabled for a higher level of consciousness in gaining clear line of sight of both the risks as well as opportunities that this new reality beholds.

LETTER FROM THE CHAIRMAN

Although our ranking in the FORTUNE Global 500® fell from 68 to 125 as a result of external factors which are beyond our control, principally the global oil price, as well as the world's geopolitical changes, and new developments in regulations and policies, I strongly believe that the behaviour and mindset of a FORTUNE Global 500® Company are far more important than the ranking itself. Hence our agility in the areas of technology, collaboration, business models and crucially, our collective behaviour that shapes our organisational culture would stand us in good stead. Our brand reputation is underpinned by the cohesiveness of our people, our deep and long established client relationships, our robust processes and systems, and our vision.

The world that operates before us today is unrelenting in its demands. There has to be a sense of urgency in us, and the humility to acknowledge that we do not know all, and that we cannot undertake everything on our own. Hence the need for us to collaborate, internally within PETRONAS, as well as externally. We need to continuously be ahead of the curve. We must bring the 27th century mindset forward to today. Our long-term sustainability is underpinned by our collective ability to think and act for tomorrow, TODAY.

MANAGING RISK AND CHAMPIONING GOVERNANCE

We have an effective risk management framework in place where a wholesome risk identification approach is critical to gain sufficient understanding and appreciation for better, informed decision-making. With the Board's oversight on risk, supplemented by the establishment of the Board Governance and Risk Committee (BGRG) since 2010, these have set the tone and culture from the top towards embedding the rigorous risk management practices across the Group. In 2016, we have continuously enhanced the overall risk management strategy by focusing on three areas of business resilience namely Enterprise Risk Management, Crisis Management and Business Continuity Management.

PETRONAS has always been lauded for upholding the highest standards of integrity and corporate governance, with transparency and ethics being the core of its processes and systems. I am pleased to report that the disclosures and transparency to our investors and regulators locally and globally have been compliant. I would credit this to our strong and robust compliance and control systems and the inculcation of a culture that upholds integrity without compromise. This is core to our Shared Values.

LETTER FROM THE CHAIRMAN

PETRONAS' Zero Tolerance policy against all forms of bribery and corruption is embedded in our Code of Conduct and Business Ethics (CoBE) and is applicable to all employees and directors. The CoBE is included in all our contracts with third parties who represent and/or act for the Group. Similarly, we have also made the PETRONAS Whistleblowing Policy transparent and accessible to the general public. All of these are to ensure that our businesses worldwide uphold the same level of commitment to ethics and transparency.

EMBRACING DIVERSITY

I am very pleased to share that in 2016, PETRONAS' Board has further increased its diversity, with the appointment of two Board members representing the state of Sarawak and the state of Sabah, respectively. In 2015, the Board saw the appointment of two women Board members.

Moving forward, PETRONAS will work on increasing the participation of professional women in higher roles and functions throughout the Group, locally and globally. That development would ensure a pipeline of ready women talent at Management as well as Board levels.

INVESTING IN HUMAN CAPITAL

Our people are our most invaluable assets. PETRONAS has some of the best talents in Malaysia and I dare say, globally. These are the faceless heroes who, on a daily basis, work to make this Company the pride of every Malaysian. They are the ones who have accomplished all the things carried by the media and in this Annual Report. Therefore, it is immensely important for us to continuously invest in our own future leaders that shall ensure the vitality of a strong leadership bench for succession planning purposes. Such investments shall not be compromised even during the most challenging of times.

**KEEP MOVING FORWARD**

On behalf of the Board, I would like to express my utmost appreciation to Datuk Wan Zulkiflee, the ELT as well as all employees of the Group, for an amazing performance in 2016 – true to our definition of "Shared Success". It was truly a commendable accomplishment, particularly given the gloomy landscape of our industry during the year.

Likewise, we continue to be very much humbled and encouraged by the trust and support from our Shareholder, the Government of Malaysia who, since 17 August 1974, has accorded PETRONAS the independence and operational freedom to shine as a respected entity in Malaysia, in the region and globally.

Let me end by quoting Allahyarham Tun Azizan Zainul Abidin who wrote the last Chairman's Message in the Annual Report of June 2004, "We will keep on investing in the development of our human resources as well as our technological base and capabilities to position PETRONAS at the forefront of competition in the global arena".

That, in a nutshell, is what we have to do, for PETRONAS to be benchmarked by the best. An International Oil Company that proudly remembers its roots, conscious of its *raison d'être*, and comprehensively acquires its responsibilities.

Thank you.

TAN SRI MOHD SIDEK HASSAN
Chairman

11 May 2017