



PETROLIAM NASIONAL BERHAD (PETRONAS)

ANNUAL REPORT 2015

THRIVING IN TOUGH TIMES

ANNUAL REPORT 2015

PETROLIAM NASIONAL BERHAD (PETRONAS) (20076-K)
Tower 1, PETRONAS Twin Towers, Kuala Lumpur City Centre
50088 Kuala Lumpur, Malaysia
Tel: +603 2051 5000

www.petronas.com

www.petronasofficial.com

Petroleum Nasional Berhad (PETRONAS)

PETRONASOfficial

PETRONAS

@petronasofficial

@petronas

INSIDE

THIS REPORT

It has been a challenging year for PETRONAS, and will likely continue to be so for the foreseeable future. Leveraging on the strength of our most valuable asset, our people, we are rising up to the challenges before us. Collectively, we strive to stay ahead by continuing to push boundaries in the industry's new realities and achieve real, sustainable and long-term growth.



OVERVIEW

- About This Report **002**
- PETRONAS at a Glance **002**
- Key Highlights **004**
- Vision, Mission and Shared Values **006**

KEY MESSAGE

- Message from the President & Group CEO **008**

CORPORATE REVIEW

- Our Profile **016**
- Our Global Presence **024**
- Our Business **026**
- Strategic Business Units **028**
- Group Organisational Structure **030**
- Group Corporate Structure **032**

STRATEGIC REVIEW

- Strategic Directions **036**
- Key Priority Areas **037**
- Sustaining Industry Competitiveness **038**
- Technologies and Innovations **040**
- Our Market in 2015 & Outlook **048**

PERFORMANCE REVIEW

- Group Financial Performance **054**
- Upstream Performance **064**
- Downstream Performance **068**

ENGAGING WITH STAKEHOLDERS

- Investing in Our People **074**
- Empowering Communities Where We Operate **078**
- Upholding Health, Safety & Environment, and Sustainable Development **082**

OUR ACHIEVEMENTS

- Corporate Milestones **088**
- Awards and Recognition in 2015 **098**
- Past Awards **101**
- Significant Events in 2015 **106**
- Media Highlights **112**

OUR LEADERSHIP

- Board of Directors **116**
- Executive Leadership Team **126**

GOVERNANCE REVIEW

- Statement of Corporate Governance **134**
- Statement on Risk Management and Internal Control **144**
- Glossary **150**

FINANCIAL STATEMENTS

- Directors' Report **158**
- Statement by Directors **163**
- Statutory Declaration **164**
- Consolidated Statement of Financial Position **165**
- Consolidated Statement of Profit or Loss and Other Comprehensive Income **166**
- Consolidated Statement of Changes in Equity **167**
- Consolidated Statement of Cash Flows **171**
- Statement of Financial Position **172**
- Statement of Profit or Loss and Other Comprehensive Income **173**
- Statement of Changes in Equity **174**
- Statement of Cash Flows **175**
- Notes to the Financial Statements **176**

ABOUT THIS REPORT

We are pleased to present our Annual Report 2015. This year, PETRONAS has adopted a more comprehensive reporting approach that captures both our performance in the previous year as well as our current achievements, as we strive to emulate best practices in corporate reporting. We hope to provide a more holistic view of our collective efforts to achieve our immediate and long-term business targets across the entire PETRONAS Group. This is also in line with PETRONAS' transformation initiative to ensure our resilience in the current challenging industry environment and our continued business sustainability.

PETRONAS AT A GLANCE

Petroliam Nasional Berhad (PETRONAS), established in 1974, is Malaysia's fully integrated oil and gas multinational ranked among the largest corporations on FORTUNE Global 500®. As the custodian of Malaysia's oil and gas resources, we explore, produce and deliver energy to meet society's growing needs.

**Started business in 1974:
41 years of proven
track record**



91
partners
worldwide

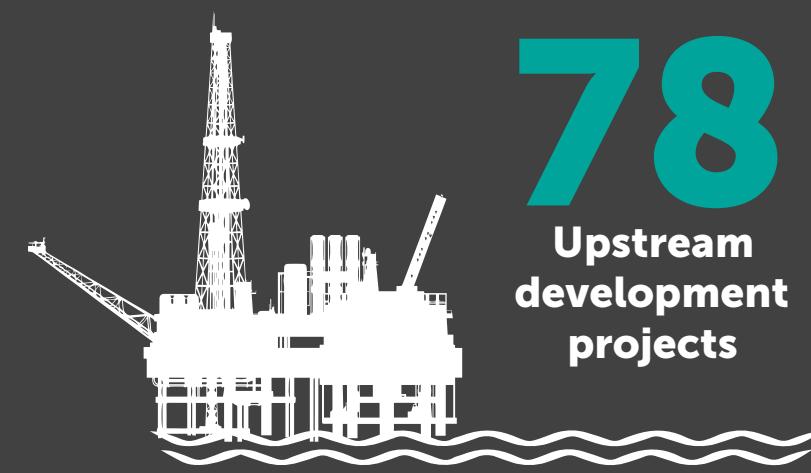
28%
of PETRONAS
workforce
are women



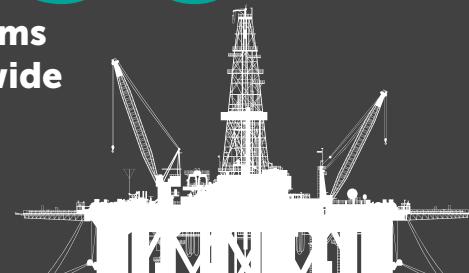
53%
of total
workforce
are below
35 years old



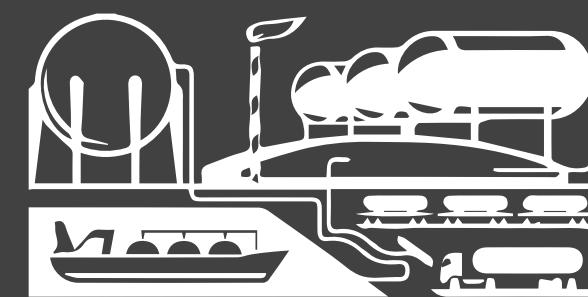
78
Upstream
development
projects



More than
250
platforms
worldwide



5 major LNG
facilities



KEY HIGHLIGHTS

PETRONAS provided the winning formula to the Formula One **world champions** of 2014 & 2015

2014 & 2015 F1 World
Constructor's Championship
title for MERCEDES AMG PETRONAS Formula One™ Team

Total assets increased to **RM591.9 billion** from RM537.5 billion in 2014

Downstream business recorded **56% increase** in Profit After Tax in 2015

Recorded **15 million man-hours** without Lost Time Injury for the PETRONAS Floating LNG Satu project



17 new oil and gas discoveries were recorded with reserves totalling **1 billion boe**

11 projects delivered first hydrocarbons for the year, including five international assets

Nine new Production Sharing Contracts (PSCs) were signed in Malaysia and abroad



OUR **VISION**

A Leading **Oil and Gas**
Multinational of Choice



OUR 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

OUR VALUES

Loyalty

Loyal to corporation

Integrity

Honest and upright

Professionalism

Strive for excellence

Cohesiveness

United, trust and respect for each other

KEY MESSAGE

MESSAGE FROM THE PRESIDENT & GROUP CEO

In my first PETRONAS Annual Report message as President and Group Chief Executive Officer (CEO), I wish to first and foremost thank my predecessor, Tan Sri Dato' Seri Shamsul Azhar Abbas for his leadership and guidance leading up to the beginning of my tenure. I would also like to express my sincere appreciation to the Board of Directors as well as my leadership team, for their confidence and trust in me, and their continuous support as we collectively take on the duty of steering PETRONAS through an undeniably difficult period.



DATUK WAN ZULKIFLEE WAN ARIFFIN
President & Group Chief Executive Officer

MESSAGE FROM THE PRESIDENT & GROUP CEO



While 2014 started and ended with oil prices at opposing ends of the price continuum, 2015 marked the start of a "new normal" in low oil prices, with Brent averaging at USD52 dollars a barrel for the year, weighed down by ceaseless production against declining global demand.

PETRONAS pulled through a very difficult year in 2015 to emerge still profitable, but severely weathered by the downturn.

The PETRONAS Group closed the Financial Year 2015 with Total Assets of RM591.9 billion, up from RM537.5 billion in 2014, mainly due to additional capital investments during the year, as we continue to see through commitments to our growth strategy.

Revenue for the year was, as expected, hit hard by low oil prices, and was recorded at RM248 billion, a 25 per cent drop from 2014. Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) decreased by 40 per cent to RM75.5 billion, while Profit After Tax suffered a 56 per cent drop to RM21 billion. The staggering decrease is largely attributed to net impairment on assets taken as prudent measures in light of significantly reduced oil price forecasts.

PETRONAS paid RM26 billion in dividends to the Malaysian Government, and continued to be the sole contributor to the National Trust Fund with a contribution of RM100 million for the year.

PETRONAS' Health, Safety and Environment (HSE) performance for 2015 recorded a reduction in Fatal Accident Rate (FAR) compared to 2014. However, we are disappointed to have recorded four fatalities during the year, and a slight increase in major incidents as compared to 2014. Immediate intervention measures have been introduced to tighten controls and enforce safety behaviours that meet stringent internal standards.



A progressive step taken in the area of Sustainable Development saw the roll-out of PETRONAS' Human Rights Commitment across the Group, to ensure that our activities are governed by human rights principles, regulations, laws, best industry practices and standards.

Operationally, PETRONAS continued to perform strongly despite the severe impact of low oil prices on our financial performance for the year. We achieved significant operational milestones which are detailed out by the respective Executive Vice Presidents and CEOs of the Upstream and Downstream Businesses in this Annual Report.

This is a true testament of the dedication and commitment demonstrated by the employees of PETRONAS who have rallied behind the organisation during this challenging period.

On the part of the organisation, a concerted effort to counter the impact of low oil prices on PETRONAS' financial performance was launched in April, when signs of a prolonged downturn began to emerge.

MESSAGE FROM THE PRESIDENT & GROUP CEO



Six focus areas were targeted. The first three were to ensure PETRONAS' immediate survival in the onslaught of falling oil prices by remaining competitive, and the other three were geared towards the organisation's long-term sustainability.

Under the first three focus areas, we delved into cash management and generation, cost efficiency and process simplification, and focused execution of our projects. I am pleased to report that these efforts have led to tangible cash generation and cost savings of up to RM1.4 billion, cushioning further impact to our bottom line. In the coming three years, we expect these initiatives to generate an additional RM6 billion to RM7 billion.

MESSAGE FROM THE PRESIDENT & GROUP CEO

In driving cost efficiency and process simplification further, three critical Group-wide processes – the hire-to-retire, procure-to-pay and the planning and budgeting processes have been radically simplified, recouping value and resources from across the value chain. From the simplification of the planning and budgeting process alone, more than 400,000 man-hours are expected to be recovered, which can be reallocated to more productive and value-generating activities. These efforts spearhead ongoing Group-wide efforts to simplify work processes to return more value back to the businesses.

For the three focus areas for PETRONAS' long-term sustainability, there were teams put in place to study the way we manage and develop talents, our technology agenda and our internal work culture. These studies have evolved into Group-wide initiatives to ensure that despite the current challenges, PETRONAS continues to invest in strategic levers – both tangible and intangible – for the organisation to sustain growth well into the future.

A key achievement from the effort to drive work culture change in PETRONAS was to realign the organisation to the Company's Vision, Mission, Strategic Directions and Shared Values, housed together under the Corporate Agenda. A thorough review of the elements within the Corporate Agenda commenced under the guidance of the Board of Directors, resulting in a refreshed Mission for PETRONAS, as well as revised narratives for the Shared Values. These changes reflect the evolving dynamics of PETRONAS' business on a global scale, and acknowledge our increasingly diverse workforce. With the Corporate

Agenda instated as our guiding principle, we introduced a set of six PETRONAS Cultural Beliefs to sustain the transformation initiatives under this concerted response to the industry downturn. The PETRONAS Cultural Beliefs are expected to create the desired experiences for employees that will influence their beliefs and actions to achieve our shared targets.

Together, these efforts have effected a wave of change initiatives to transform the organisation and I am encouraged by the strong show of support from our dedicated workforce to see them through. This transformation journey is led by the senior leadership team, and backed by a consistent communication plan to ensure that employees remain informed and motivated about being part of a movement to navigate PETRONAS through the current storm and emerge stronger and more competitive from it.

Towards the final quarter of 2015, it became clear that prices had yet to bottom out, and that the next two years will likely remain challenging for PETRONAS. Our resilience and endurance will be severely tested as the

MESSAGE FROM THE PRESIDENT & GROUP CEO



possibility of even lower crude oil prices loom for 2016, and we will need to flex our financial muscles hard over a stretched period into 2017. This calls for follow-through actions under the transformation journey in 2016, at a scale unprecedented in PETRONAS' history.

Inaction will be irresponsible; it will be imperative for us to push through with the transformation initiatives to survive this downturn, and retain sufficient strength and robustness to get back on a growth trajectory once the tide turns for the industry.

DATUK WAN ZULKIFLEE

President & Group Chief Executive Officer



CORPORATE REVIEW



OUR PROFILE

Petroliam Nasional Berhad (PETRONAS) is Malaysia's fully integrated oil and gas multinational wholly-owned by the Malaysian Government. Established in 1974, PETRONAS is now ranked amongst the largest companies in the world with a proven track record in integrated oil and gas operations spanning the entire hydrocarbon value chain.

PETRONAS' business activities include (i) the exploration, development and production of crude oil and natural gas in Malaysia and overseas; (ii) the liquefaction, sale and transportation of Liquefied Natural Gas (LNG); (iii) the processing and transmission of natural gas, and the sale of natural gas products; (iv) the refining and marketing of petroleum products; (v) the manufacturing and selling of petrochemical products; (vi) the trading of crude oil, petroleum, gas and LNG products and petrochemical products; and (vii) shipping and logistics relating to LNG, crude oil and petroleum products. Committed to ensuring business sustainability, PETRONAS also strives to responsibly manage natural resources in a way that contributes holistically to the wellbeing of society wherever it operates.



UPSTREAM

MAXIMISING RESOURCES FOR GROWTH

PETRONAS' Upstream business which encompasses Exploration, Development & Production, LNG Trading & Marketing, LNG Assets and Malaysia Petroleum Management, is a fully integrated business covering a broad portfolio of resources and play types in more than 20 countries. As the custodian of Malaysia's petroleum resources, PETRONAS is focused to pursue sustainable value-driven production growth, monetise gas resources, strengthen core capabilities and build niche competencies. Proven capability and track record of successful onshore and offshore developments in oil and gas have earned PETRONAS reputable operatorship in many ventures across the world.

In Malaysia, PETRONAS runs 198 producing fields and 355 offshore platforms while promoting sustainable and orderly development of Malaysia's petroleum resources through 101 active Production Sharing Contracts.

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 (MPM) which searches, acquires, extracts and delivers new resources to sustain long-term production. Core activities are block acquisition, growth strategies, basin evaluation, play generation, prospect maturation and exploration drilling.

An Exploration Centre of Excellence (COE) comprising Basin & Petroleum System Analysis, Geology Solutions, Reservoir Geoscience and Geophysics Solutions collectively deliver new Resource Addition providing the pipeline for hydrocarbon reserves to be developed, leading to sustained and long-term hydrocarbon production.

DEVELOPMENT & PRODUCTION

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

OUR PROFILE